

MAYOR & COUNCIL AGENDA COVER SHEET

MEETING DATE:

March 7, 2005

CALL TO PODIUM:

Fred Felton
Assistant City Manager

RESPONSIBLE STAFF:

Fred Felton
Tony Tomasello
Greg Ossont
Mark DePoe
Cindy Hines

AGENDA ITEM:

(please check one)

<input checked="" type="checkbox"/>	Presentation
<input type="checkbox"/>	Proclamation/Certificate
<input type="checkbox"/>	Appointment
<input type="checkbox"/>	Public Hearing
<input type="checkbox"/>	Historic District
<input type="checkbox"/>	Consent Item
<input type="checkbox"/>	Ordinance
<input type="checkbox"/>	Resolution
<input type="checkbox"/>	Policy Discussion
<input type="checkbox"/>	Work Session Discussion Item
<input type="checkbox"/>	Other:

PUBLIC HEARING HISTORY:

(Please complete this section if agenda item is a public hearing)

Introduced	
Advertised	
Hearing Date	
Record Held Open	
Policy Discussion	

TITLE:

Presentation of Draft Olde Towne Master Plan

SUPPORTING BACKGROUND:

In the fall of 2004, the Mayor and City Council determined the best way to approach the Olde Towne Special Study Area was to hold a second Olde Towne charrette to build on the success of our original 1995 Olde Towne Charrette.

After meeting with a number of outstanding planning firms, staff recommended that Torti Gallas and Partners, Inc. be retained to facilitate this event. In an effort to ensure the plan was economically viable, Robert Charles Lesser and Company was retained as financial consultants.

Prior to the charrette, the consulting team and staff held a series of one-on-one meetings with citizens, property owners, City officials, and other stakeholders. After a kick-off event on November 10, 2004, an intensive charrette was held. Approximately 250 stakeholders participated in this very successful planning exercise.

On November 22, 2004, Torti Gallas and Partners, and Robert Charles Lesser and Company gave a presentation during a joint work session. Since that time, a staff team has been working with the consulting team to transform the charrette documents into a draft Master Plan Element.

During this work session, staff and representatives from Torti Gallas and Partners were given an overview of the draft Master Plan.

DESIRED OUTCOME:

Hear presentation, and authorize staff to advertise for a May 16, 2005 joint public hearing.

MAYOR & COUNCIL AGENDA COVER SHEET

SUPPORTING BACKGROUND: (Cont'd)

Staff is generally very comfortable with the draft Master Plan; however, there is some internal concern that the proposed height limit of twelve stories on the "Y" lot may be excessive.

Pursuant to State law, a Master Plan amendment must be advertised and available for public comment sixty days prior to a public hearing. At this point, staff is requesting Council approval to advertise for a May 16, 2005 joint public hearing for the Olde Towne Master Plan amendment.



ROBERT CHARLES LESSER & CO., LLC

MARKET ANALYSIS OF SELECTED LAND USES IN OLDE TOWNE GAITHERSBURG

Prepared for:
City of Gaithersburg

February 10, 2005



Olde Towne Market Analysis

- **Summary of Market Findings**
- **Introduction & Background**
- **Rental Apartment Market Data**
- **For-Sale Condominium Market Data**
- **Retail Market Data**
- **Office Market Data**
- **Hotel Market Data**

Summary of Market Findings

The following section will outline our key market findings and recommendations with regards to the market feasibility of selected land uses in Old Towne Gaithersburg. These findings will be key inputs into the master planning process.



Development Opportunities in Olde Towne

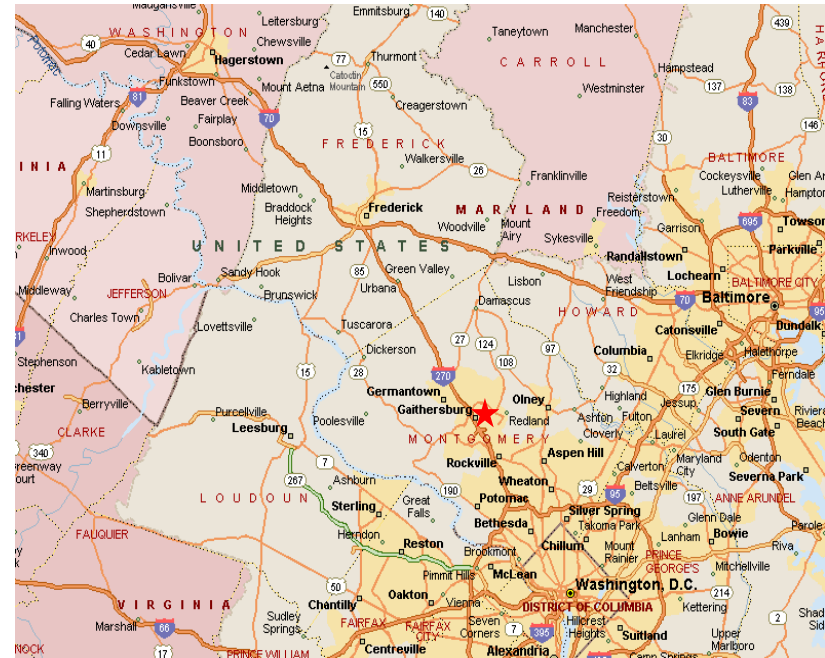
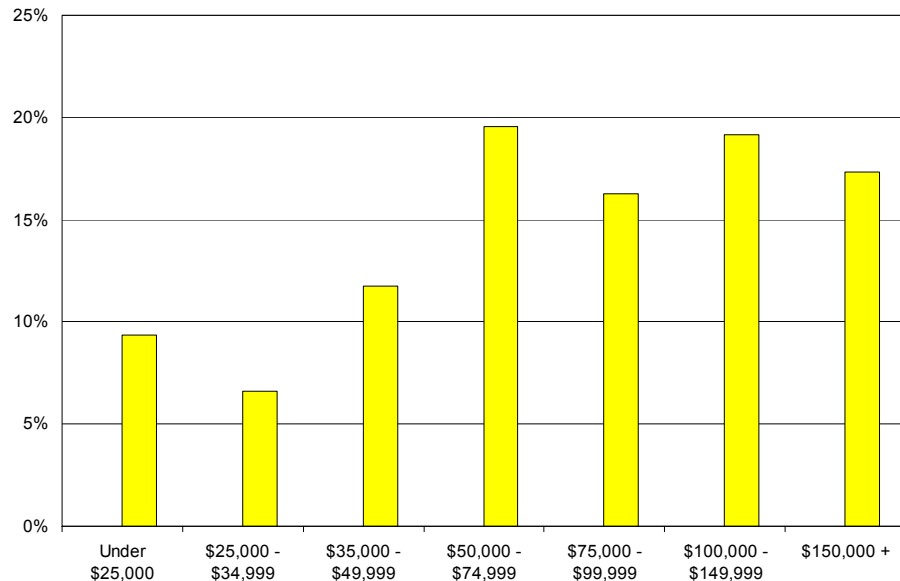
The strength of future development opportunities in Olde Towne Gaithersburg will depend primarily upon two factors:



- The attractiveness of Olde Towne as a location for a variety of land uses.
- The supply and demand conditions for those land uses in the competitive market area of Olde Towne.

Olde Towne Location - Strengths

- Olde Towne Gaithersburg is an **Infill Location** in the dominant path of growth in a rapidly growing region.
- Given **Regional Land Supply Constraints**, infill locations in good locations are very attractive to consumers and developers.
- The site offers excellent **access** to employment cores via Route 355, I-270 and MARC trains.



- The Olde Towne market area has **Strong Demographics**, with projected household growth and high incomes.
- Olde Towne will benefit from a **Strong Regional and Local Economy**, which will drive demand for residential and nonresidential uses.

Olde Towne Location - Strengths

- Olde Towne currently has **Ample Public Parking**, in particular the public parking on Summit Avenue garage that is not being fully utilized. This should allow for higher-density commercial development in the area of the garage.
- The **Presence of MARC Station** will drive higher-density residential development as young and mature professionals seek more convenient transportation alternatives.
- The presence of a number of **Publicly-Owned Sites** will allow for the public sector to partner with the private sector on “catalytic developments.”



Olde Towne Location - Strengths



- Olde Towne already includes several **Civic and Historic Uses** – most notably City Hall, the Post Office, and the Gaithersburg Historical Museum – which are important both from a symbolic view, but also as real anchors of traffic into downtown.
- Olde Towne does have existing **Public Spaces**, including the pavilion in front of the City Hall and the public plaza (although underutilized) at the corner of Summit and Diamond Avenues.
- Olde Towne does have an existing base of **Vibrant Ethnic Retail**, which could be better leveraged as a unique draw.
- Olde Towne does have a truly **Unique Architectural Character and Urban Feel**, in particular relative to surrounding suburban growth, and even when compared to newer town center development.

Olde Towne Location - Challenges



- The redevelopment efforts in Olde Towne will face strong competition from other **Large, Mixed-Use Projects** planned in Montgomery County, including large developments planned near the Shady Grove, Rockville, and Twinbrook Metrorail stations.
- While Olde Towne is located just off of Route 355, it does suffer from a **Lack of Visibility**, as the core of Olde Towne is not visible from Route 355. The lack of directional signage further reduces the visibility of Olde Towne.
- Olde Towne does suffer from significant **Traffic Congestion**, particularly along Summit Avenue due to the frequency of train crossings, which reduces limits access to Olde Towne.
- The ample **Parking Is Not Fully Utilized**, as the garage does not currently do a good job serving many of the smaller businesses along North Summit and Diamond.
- The frequent train service creates a **Noise Nuisance**, although many residents in Olde Towne did not feel this was a problem, and some actually found the sounds a charming aspect of Olde Towne.



Olde Towne Location - Challenges



- There is currently a **Lack of Significant Luxury Housing Stock** in Olde Towne which would support higher-end retail and services.
- While there is a vibrant ethnic retail cluster in Olde Towne, the area also has an **Aging Commercial Stock**, which affects both the wider perceptions of Olde Towne among consumers, but also the ability of existing businesses to expand or newer retailers to enter the area.
- The built environment has a number of **“Missing Teeth”** – vacant or underutilized lots that detract from the physical continuity and attractiveness of the place.
- Olde Towne also lacks continuity because of the **Mix of Urban and Suburban Models**, with far too many surface parking lots to create a true pedestrian environment.
- While there are several larger contiguous parcels, in the heart of Olde Towne amore **Fractional Ownership** pattern makes redevelopment more difficult.



Olde Towne Location Assessment

Overall, Olde Towne Gaithersburg should be well positioned to capture significant depth of demand to support an appropriately-sized, vibrant mixed-use downtown.

Factor	Grade	Assessment
Regional Location	A-	Attractive, inner suburban infill location in rapidly-growing region. Strong competition for mixed-use environments is more reflective of pent-up demand for these types of places, and will not likely result in sustained period of oversupply.
Demographics & Economics	B +	Lack of luxury housing stock in Olde Towne, but very strong demographic and economic foundation in surrounding market area that can support new residential and nonresidential development.
Access & Visibility	B	Strong infill location with transportation anchor; visibility and access challenges can be overcome through effective planning, signage and marketing.
Development Opportunities	A-	Some fractional ownership constraints, but still there are several concentrations of parcels that can be redeveloped in near term.
Character	B +	Charming but underutilized main street. Ethnic character and public spaces already provide a unique small downtown experience. "Missing teeth" will be filled in as redevelopment activity increases.

Market Opportunities

Projected Net New Development Potential Over a Ten-Year Period

Use	Opportunity	Depth of Demand
Residential	High	1,250 to 1,500 units
Retail	Moderate	125,000 to 175,000 square feet
Office	Moderate	200,000 to 250,000 square feet
Hotel	Low	Potential for boutique hotel in longer-term

Market Opportunities – Rental Apartments

- The Gaithersburg Class A rental market is positioned below closer-in suburban submarkets, but has maintained healthy vacancy rates.
- Current rents not supportive of higher-density development.
- The Class A rental market in the Route 355/I-270 corridor is currently working through a period of oversupply, which is reflected more in stagnating rents rather than very significant vacancies.
- There is very strong competition for the affluent renter, and thus quality of product, location and environment is even more critical to a project success.
- Success of Beacon Place on Olde Towne Avenue is possible evidence of the rent premiums associated with a more interesting, mixed-use project.
- The existing inventory and future pipeline in the Route 355/I-270 corridor will be decreased significantly due to known and rumored condominium conversions, and the relative lack of new rental projects in the pipeline.



Market Opportunities – Condominiums



- The condominium market regionally and locally is red hot, with projects selling out in a matter of months despite rapidly increasing prices.
- The aging of the baby Boomer, pent-up demand for more urban living, housing supply constraints in farther-out suburban locations, and historically low interest rates have driven condominium demand.
- Relative to other jurisdictions, Montgomery County has seen very little condominium activity, especially in higher-density product.
- However, the recent success of a number high-rise condominium properties – in particular, the Adagio in Bethesda and the Sterling in White Flint – is strong evidence that a market for such product does exist.
- The condominium pipeline in Montgomery County is growing, especially as existing and pre-development rental projects convert to for-sale, but the number of planned units is still below other jurisdictions, and it is very likely that pent-up demand will exist due to the recent lack of supply.



Market Opportunities – Rental vs. Condo

In the near term, for-sale condominium development will represent the strongest residential market opportunity. However, as new condominium development and conversions shift the supply-demand balance, luxury rental apartments will become more attractive in the mid and long terms.

- The preference for ownership (especially among the growing move-down market, low interest rates and the lure of a rapidly appreciating market currently make for-sale condominiums more attractive than luxury rental apartments in the near term.
- From a development perspective, achievable condo land prices are far above rational rental land prices, which makes feasible rental sites very difficult to find.
- Rising interest rates would tip the balance back in favor of rental product, but while we do expect interest rates to increase modestly from their historic lows, we do not expect dramatic rate increases over the near and mid terms.
- Over time, we do expect continued new development of condominiums, and conversions of existing and planned rental projects, to create a moderate degree of oversupply in condominiums and some undersupply in apartments. This will eventually allow rental projects to achieve the rents supportive of new, high-density development and competitive land values..



Initial Condo Pricing:

\$350 per SF, with significant price increases once market is established

Condo Target Market:

Mix of single and coupled professionals, smaller families, empty nesters and seniors

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Market Opportunities – Retail

There is an opportunity to establish Olde Towne as a truly unique place in the broader marketplace, and therefore create market conditions supportive of the development of new specialty retail and restaurants, as well as strengthening of the existing retail/restaurant base.



- Given lack of accessibility and visibility, Olde Towne can't compete with larger retail concentrations, but it can serve a specialty niche of retail and restaurant demand.
- Instead of competing with large retail centers, Olde Towne will provide an alternative shopping and dining experience.
- Mixture of credit-strong national tenants and unique, successful local retailers and restaurants.
- Olde Towne must establish a brand identity, such as leveraging its strong ethnic retail base, in order to draw in customers from a broad market area.
- Much of the new retail development will want to follow substantial deliveries of new residential units and office square footage.
- Retail and restaurants are critical in that they create street life and give people a reason to be in Olde Towne in the evening and weekend.

Market Opportunities

Projected Net New Development Potential Over a Ten-Year Period

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Market Opportunities – Office

There is an opportunity to develop new office space in Olde Towne that targets a niche of tenants who want to work in a vibrant, mixed-use environment.

- While relatively small compared to neighboring submarkets, the Gaithersburg submarket has shown an ability to absorb Class A & B office space.
- The proven success of the DANAC development is strong evidence of market depth for office space in Olde Towne.
- The strongest office opportunity will target smaller tenants who desire a more urban, mixed-use, vibrant environment with access to I-270 and other transportation options.
- Olde Towne will not compete directly with existing or planned campus parks or large, stand-alone buildings, but will attract tenants from these buildings who are looking for a different experience, as well as tenants from more expensive submarkets – such as Bethesda – who are seeking a price alternative.
- Other office uses: ground floor live-work space or incubator space for start-up technology firms.
- Office space created daytime traffic that supports retail.
- Rents ranging from \$24 to \$25 per SF (Gross, 2004 dollars)



Market Opportunities

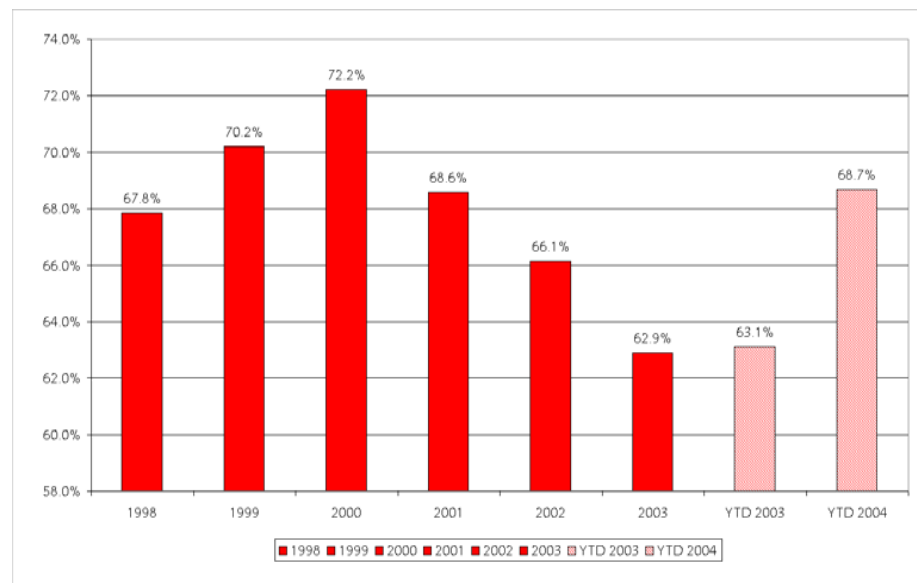
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Market Opportunities – Hotel

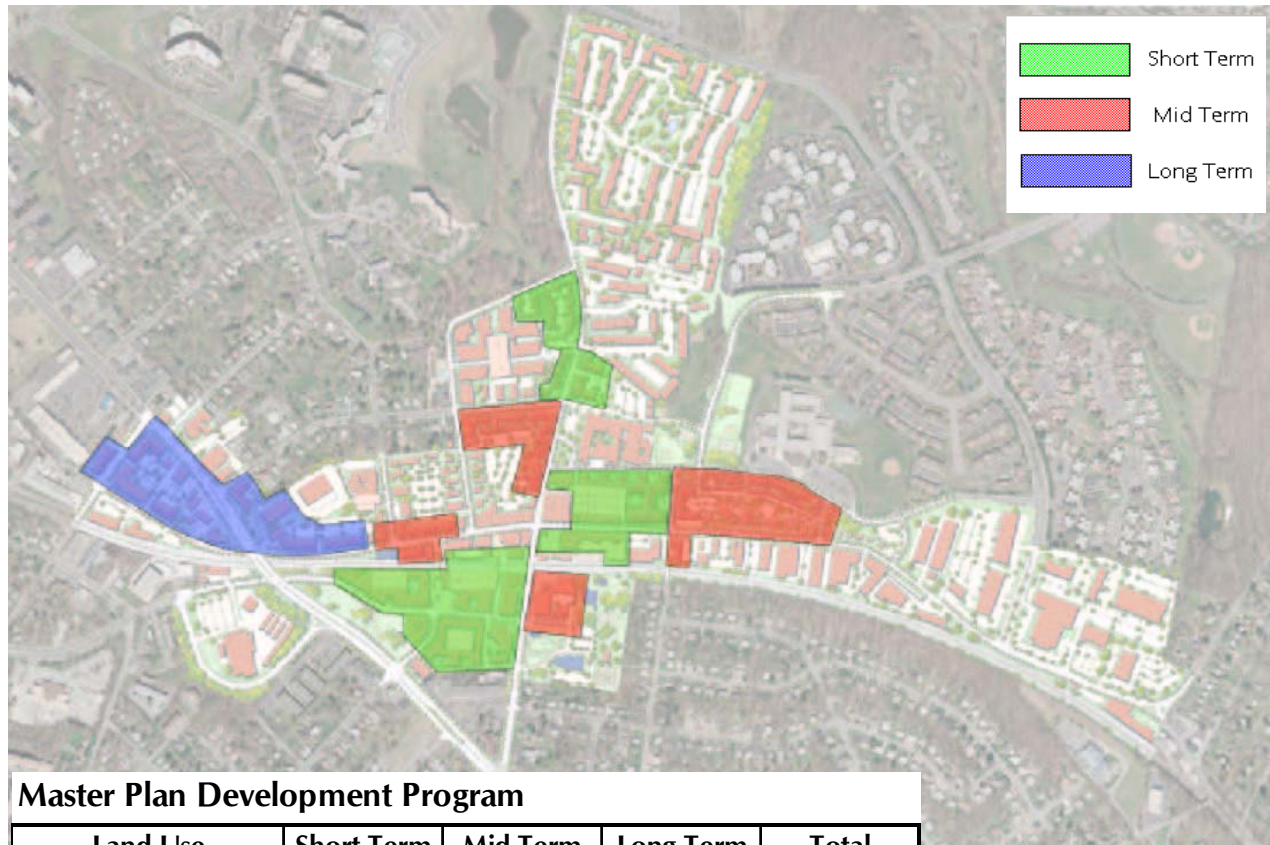
There is limited near and mid-term opportunity to develop new hotel product, although boutique hotel product may exist as a niche opportunity in longer term.

- The local up- and mid-scale hotel market has struggled in years.
- Hotels require a significant mass of office space to support demand, and retail and entertainment space – “a reason to be there” – in order to convince potential demand to stay in Olde Towne.
- Most sites in Olde Town lack of the visibility required for a new hotel.
- Near or mid-term opportunity may exist for limited service hotel on site adjacent to Route 355 – may not fit into urban design concept for Olde Towne.
- Boutique hotel opportunity, with upscale small event or meeting space, may exist once Olde Towne sense of place is further established.



Olde Towne Master Plan

We have found strong market support for the master plan in the near and mid term.



- Immediate development opportunities do exist on several larger, contiguous parcels.
- The short term is likely a 6-8 year planning horizon, including site approvals and construction.
- Long-term market support will likely also exist for later phases, although plan must be revisited over time to reflect current market conditions.
- Recommended land uses will be financially feasible, assuming no extraordinary site or infrastructure costs.
- Density will need to “step up” over time, but as Olde Towne gains momentum, higher-density and more complicated mixed-use projects will be supported by values.

Critical Success Factors



1. **Have a Plan...but Make it Flexible:** The master plan must present a vision for Olde Towne that can shape further development opportunities and create a consistent development pattern that builds momentum over time. However, the plan must also be flexible enough to allow for shifting market conditions, as long as the broader vision is maintained.
2. **Create a Physical Sense of Place:** Infrastructure improvements can create a sudden, physical change in an area's "sense of place" that can encourage private investment. Infrastructure improvements include attractive streetscapes, open spaces, public plazas, architectural features, and civic and public buildings.
3. **Concentrate Redevelopment in Nodes:** It is critical that a redevelopment effort has "early wins," or catalytic developments, that change the physical perception of a place and provide evidence of market support.
4. **Differentiate Olde Towne in the Marketplace:** Create a higher-profile and more distinct image by increased branding and marketing including improved external directional signage; a consistent "look and feel" to internal directional signage; well-publicized community events and festivals; and, active business groups.



Critical Success Factors

5. **Public-Private Partnerships:** The public sector must work to support the early redevelopment efforts – the early market wins – in order to create momentum. The role of the public sector should include:
- Public infrastructure investments, such as the physical infrastructure discussed above, as well as public parking and multi-model transportation improvements;
 - Contribution, or joint venture development, of publicly-owned land;
 - Site assemblage assistance in areas with fractionalized ownership;
 - Loan or grant programs to encourage private reinvestment – facade improvements, shared parking regulation; and,
 - Encouraging local business development with loans and rent guarantees (so that private developers will rent to local businesses versus more credit-worthy national tenants).



Olde Towne Market Analysis

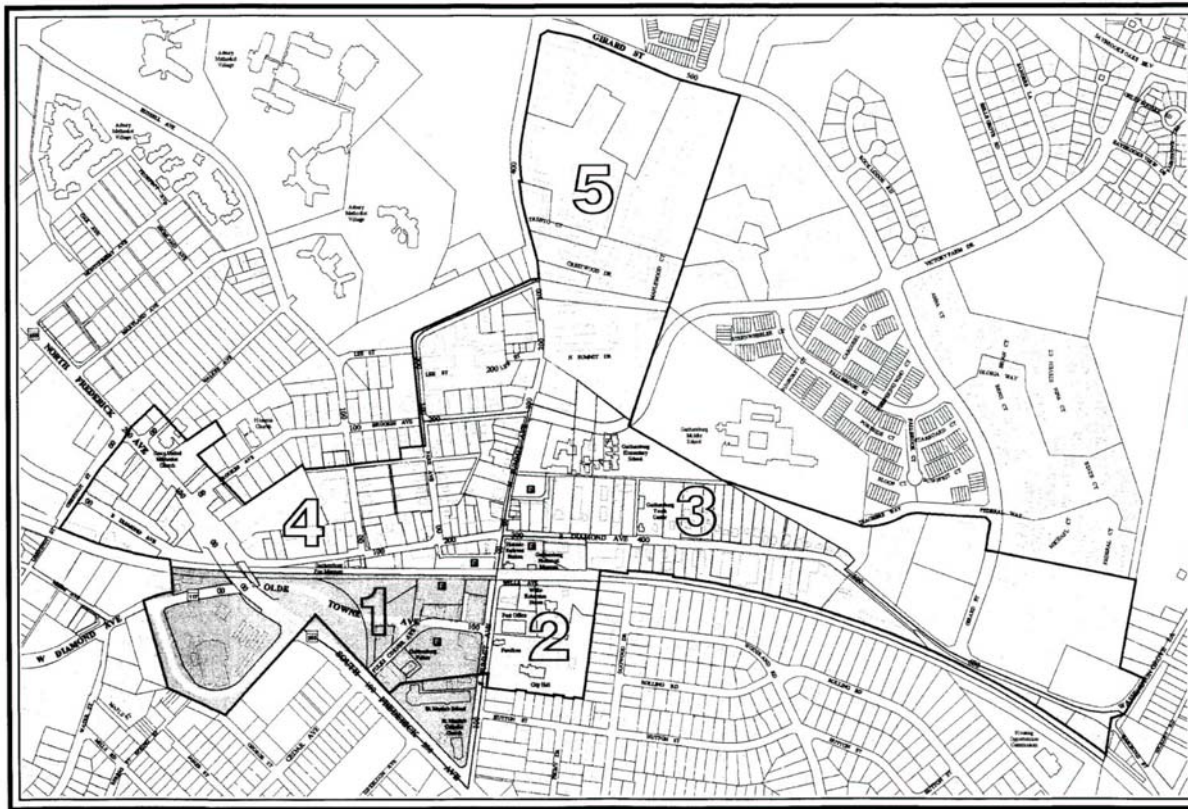
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- **Hotel Market Data**

Olde Towne Gaithersburg

- Heart of Old Towne located at intersection of Summit and Diamond Avenues
- Easy access, although limited visibility, from Frederick Avenue (Route 355)
- Bisected by train tracks



Sector 1

Mixture of new buildings and attractive infill sites

Sector 2

Concentration of civic and transportation uses

Sectors 3 & 4

Diamond Avenue is the Main Street, with a mixture of streetfront retail, strip retail, and smaller detached residential and commercial buildings

Sector 5

Mixture of new and older multifamily rental apartments

Study Objectives

- The objective of this assignment is to provide market and development feasibility inputs into the master planning process being led by Torti Gallas and Partners, Inc.
- This study is a broad analysis of the market feasibility of a number of land uses; more detailed market analysis would be required for project-level feasibility determination.
- Given time and budget constraints, this study has relied heavily on RCLCo's extensive experience in this market area, as well as our experience with relevant projects regionally and nationally.
- RCLCo has worked closely with Torti Gallas and the City of Gaithersburg to ensure that the market inputs have been incorporated into the master planning process, including participation in several days of the master planning charrette.

Land uses considered:

- For-sale residential
- Rental apartments
- Retail
- Office
- Hotel

Methodology:

- Subject Site Assessment – Market Strengths and Challenges
- Analysis of Secondary Market and Demographic Data
- Analysis of Existing Primary Research on Comparable Projects
- Targeted Interviews with Developers and Brokers
- Internal RCLCo Market Charrette – Utilizing of Experience of Senior Staff

General Limiting Conditions

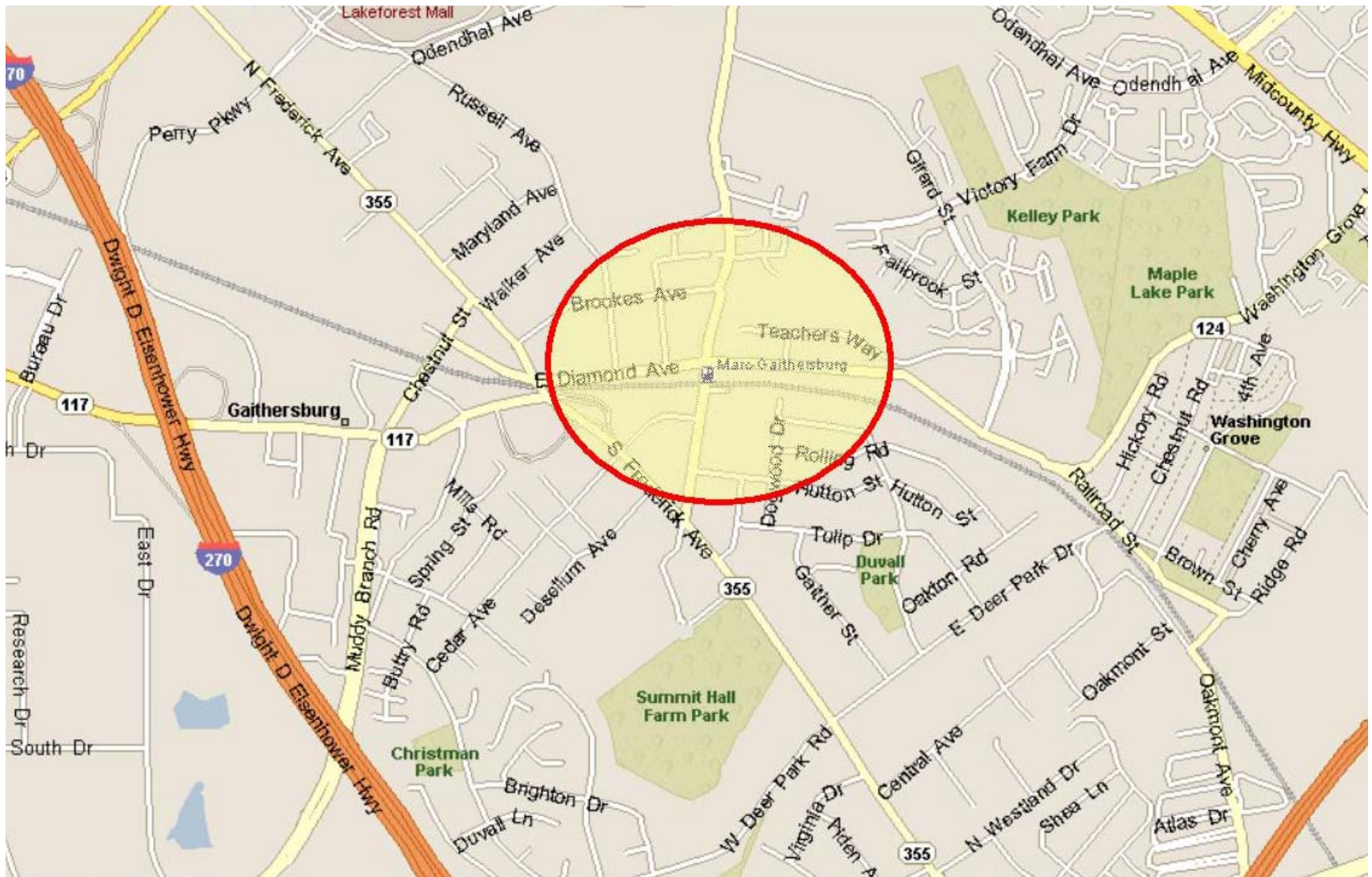
Report Preparation

- Marc McCauley, Vice President,
 - Ann Glendon, Associate
 - Washington, D.C., office (301) 907-6600
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Critical Assumptions and General Limiting Conditions

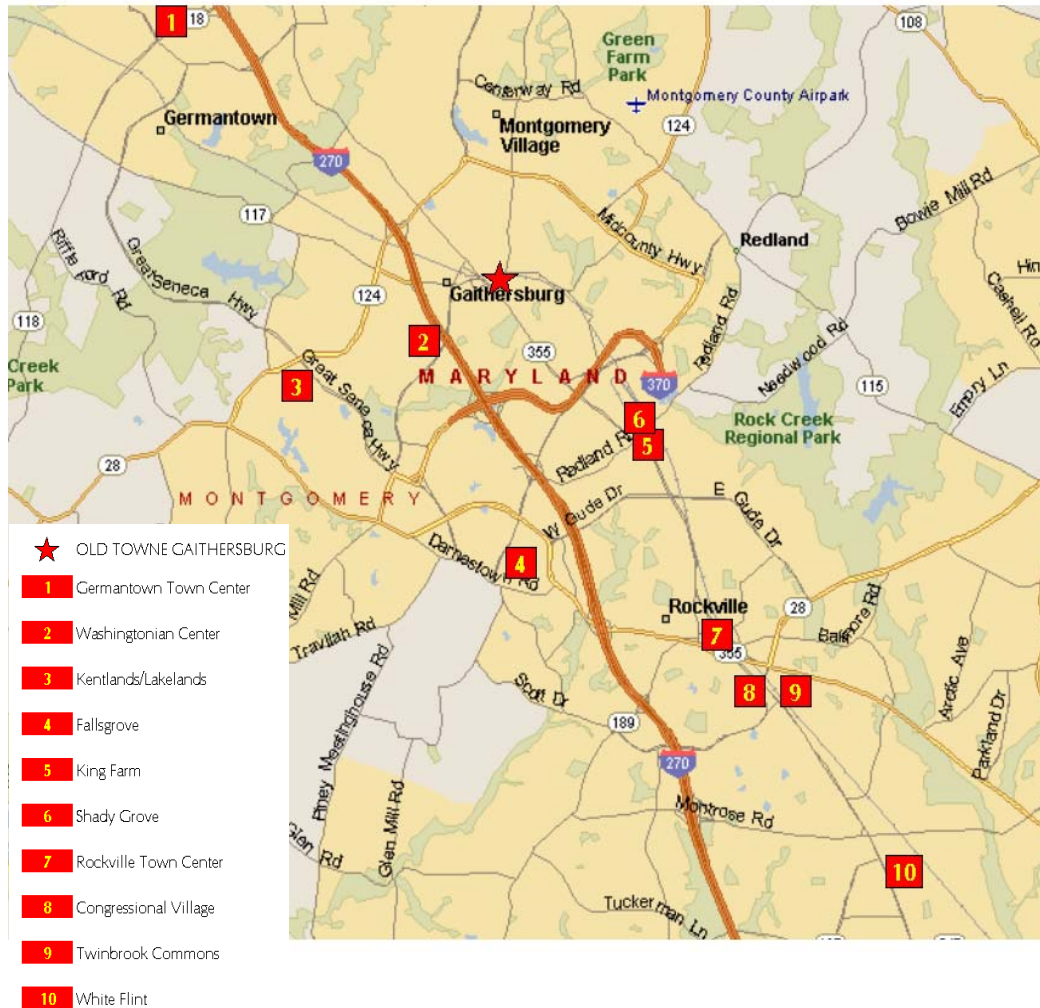
- We assume: projected growth will occur at a stable rate; there will be no major economic “shocks,” dramatic shifts in consumer confidence, sharp increases in the cost of development and construction, significant changes in tax laws, or changes in the availability/cost of capital and mortgage financing; and, competitive and public works projects move forward as planned
- We are currently in a period of modest and inconsistent economic recovery, the timing and depth of which is unknown
- Interest rate increases are expected over the next several years, but we expect that rates will remain historically low, and thus a precipitous decline in housing demand is not expected to occur.
- Conclusions based upon data collected in October and November 2004, and every reasonable effort has been made to verify accuracy of this data
- No warranty or representation is made by RCLCo that any of the projected values or results contained in this study will actually be achieved.
- This report cannot be reproduced, abstracted, used in conjunction with any public or private offering of securities or other similar purpose, or used for any purpose other than that for which it is prepared, without prior written consent of RCLCo.

Project Location



Competitive Development Context

Given this strong future competition, Olde Towne will succeed to the extent that it is able to build off its unique character and charm, and truly differentiate itself in the marketplace.



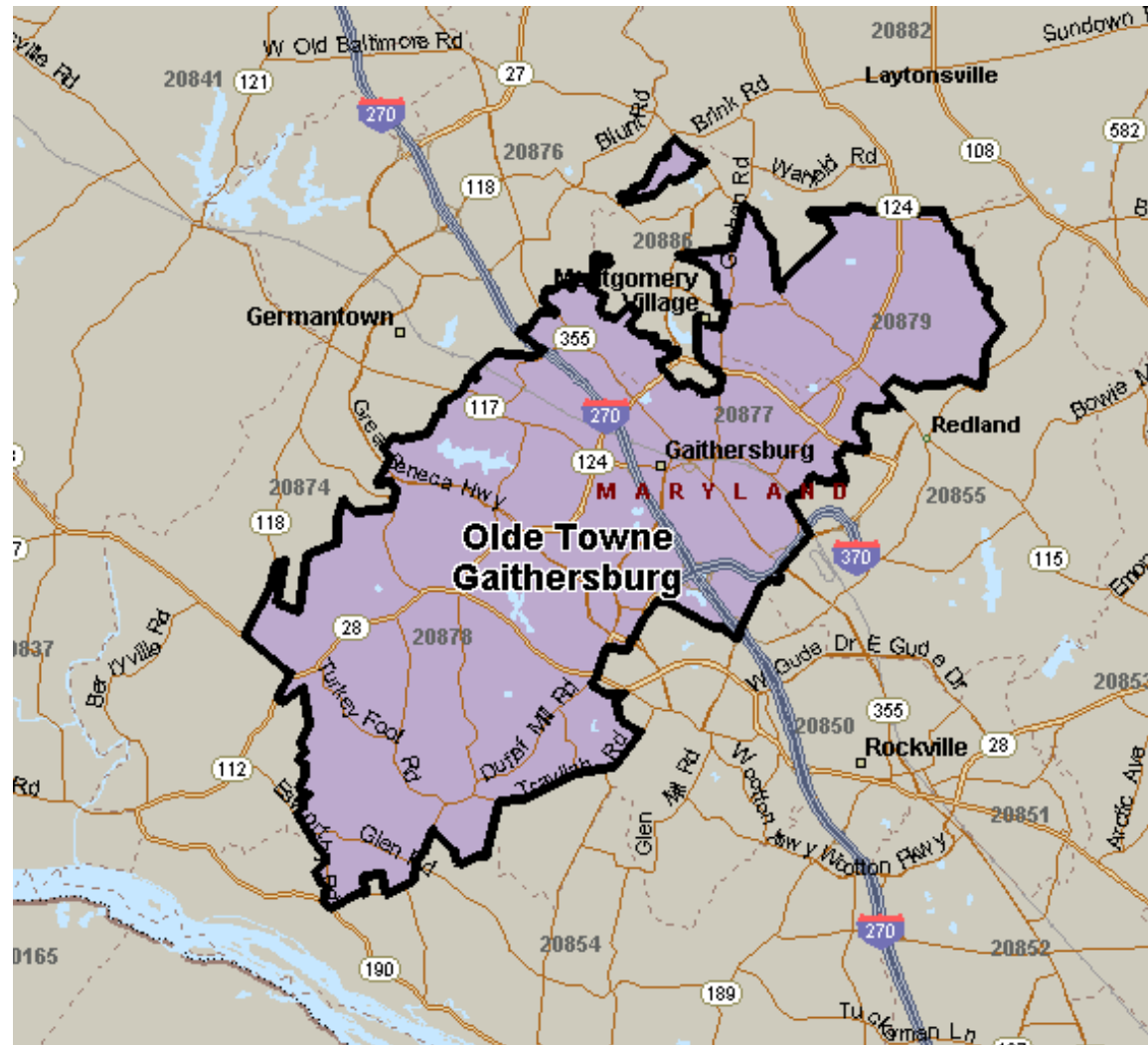
There are a number of existing and planned town centers in the broader market area. Olde Towne will need to compete with these other places for residential and nonresidential demand. The more notable planned projects include:

- Shady Grove Sector Plan (Shady Grove Metro) is projected to add 5,400 to 6,300 new units, plus an undisclosed amount of retail and office.
- Rockville Town Center (Phase I) will deliver 630 housing units, 175,000 SF of retail, small offices, library and cultural arts center. Future phases or contiguous projects could as much as 1,140 more housing units.
- Twinbrook Commons (Twinbrook Metro) will add 1,700 housing units, 220,000 SF of retail, and 325,000 SF of office.

Market Area Demographics

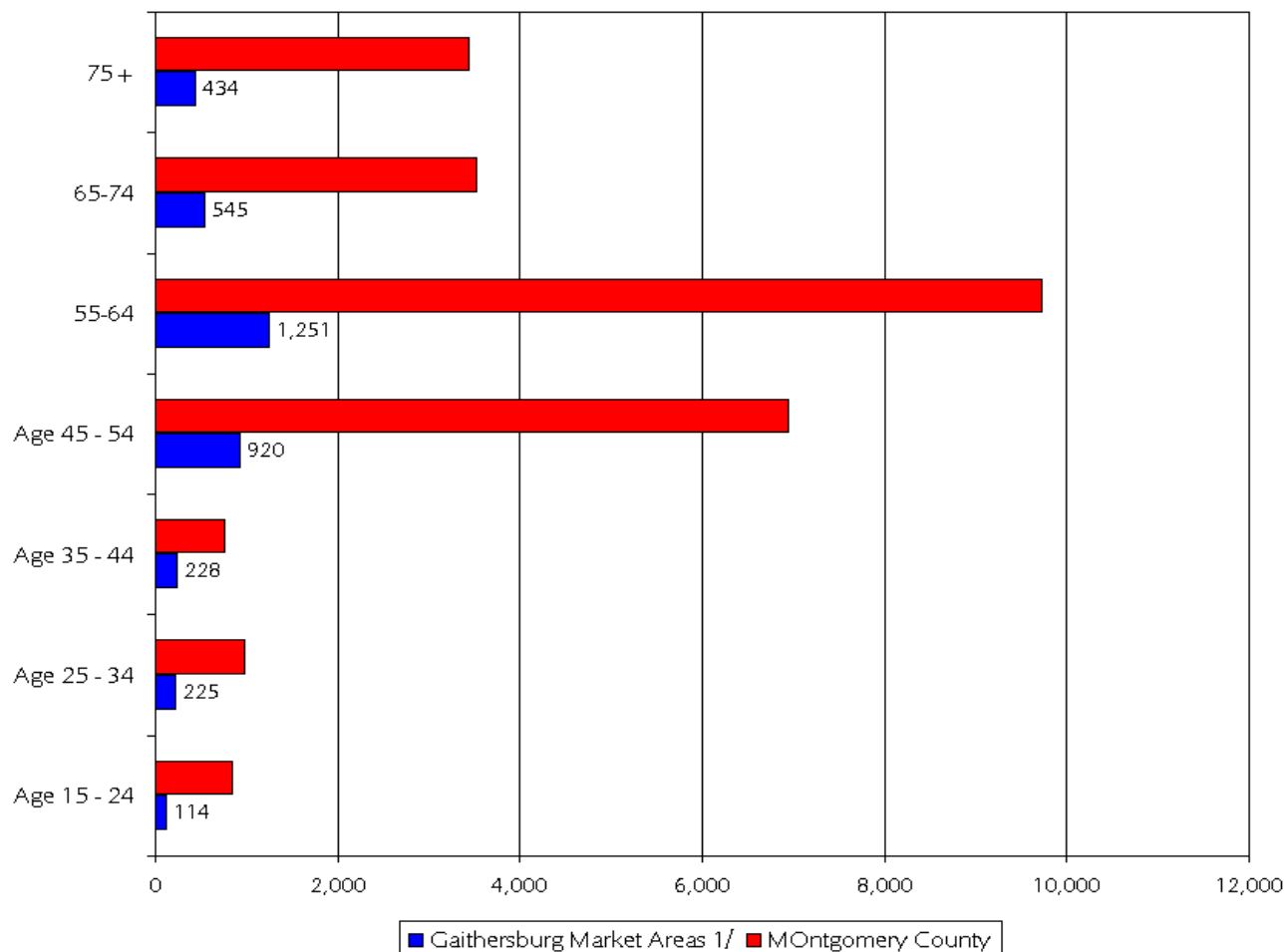
- The geographic area that will contribute to demand conditions for retail and residential.
- Comprised of the following Zip Codes: 20877, 20878, and 20879
- 42,300 households in the Gaithersburg market area in 2004.

Gaithersburg Market Area



Market Area Demographics

Growth in Households by Age; Gaithersburg Market Area and Montgomery County, 2004-09



1/ Includes Zip Codes 20877, 20878 and 20879

Source: Claritas, Inc.; Robert Charles Lesser & Co., LLC

ROBERT CHARLES LESSER & CO., LLC

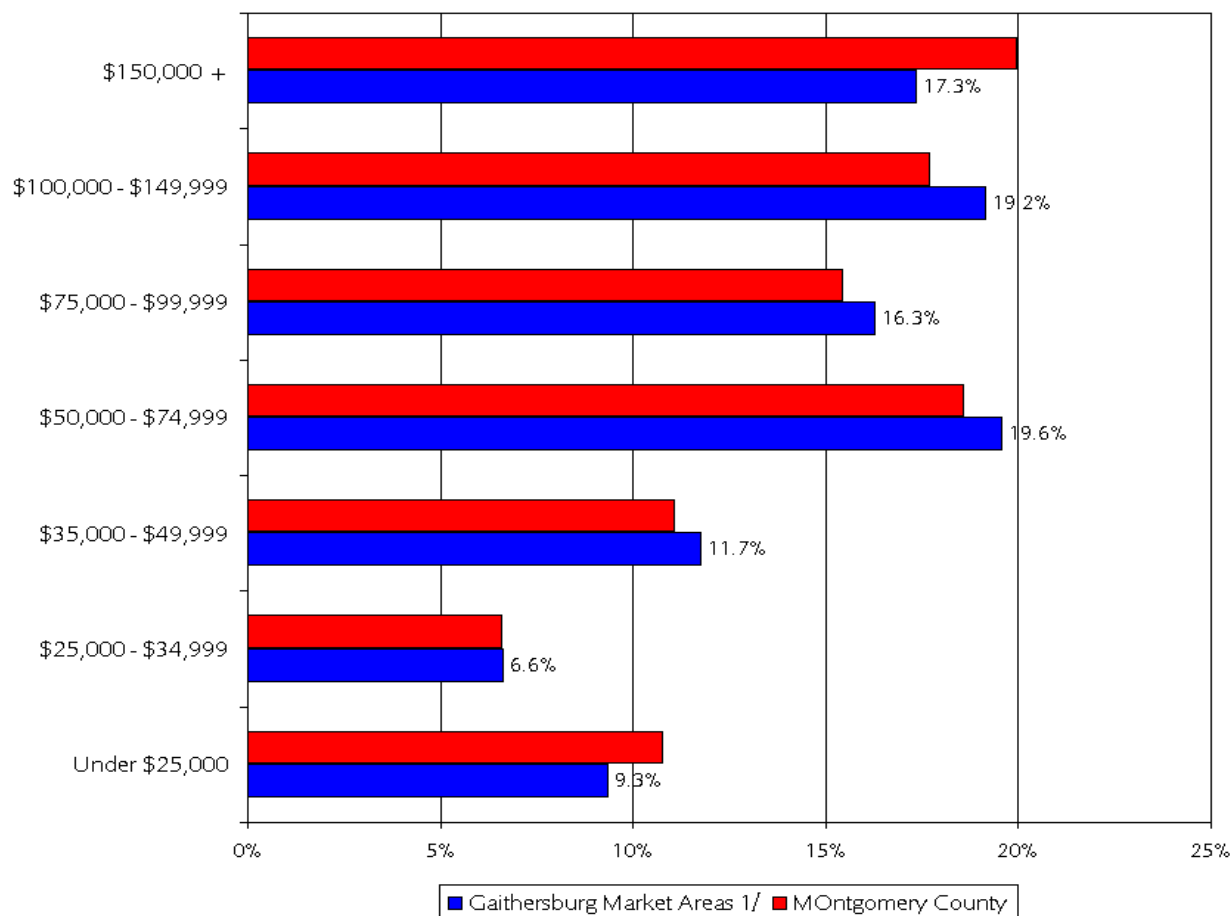
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February 10, 2005

- This market area is expected to grow by 3,700 households by 2009.
- Majority of growth in 45+ age group, in line with County and national trends.
- Still, positive growth in under 35 segment.
- Share of County growth could increase due to vibrant infill developments within Olde Towne and surrounding areas.

Market Area Demographics

Distribution of Households by Income; Gaithersburg Market Area and Montgomery County, 2004



- The Gaithersburg market area has competitive income distribution relative to County as a whole.
- 53% of households in 2004 with an income of \$75,000 or greater.
- 17% with an income of \$150,000 or over – lower than county, but still very strong relative to region as a whole.

1/ Includes Zip Codes 20877, 20878 and 20879

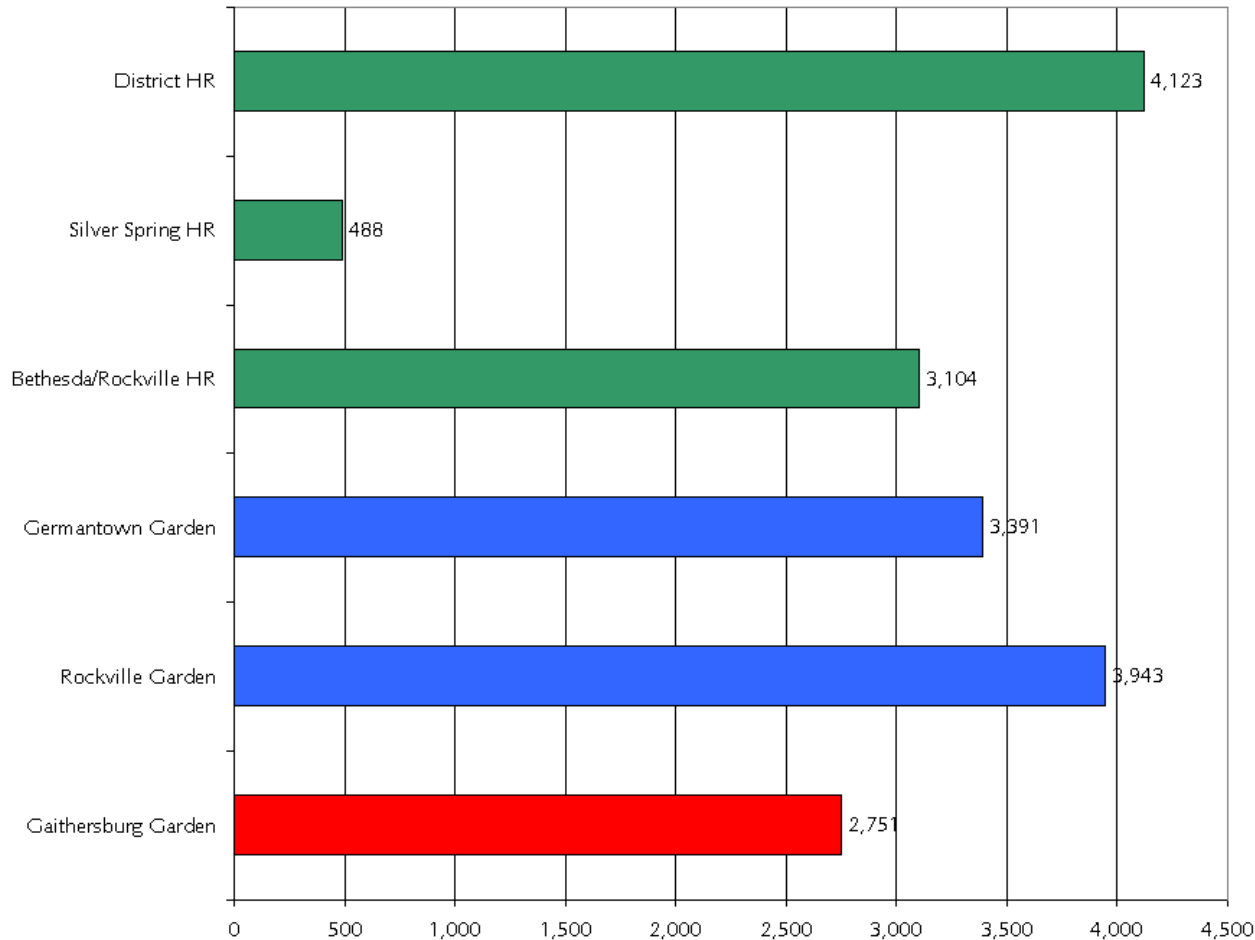
Source: Claritas, Inc.; Robert Charles Lesser & Co., LLC

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Class A Rental Inventory

Existing Class A Rental Units by Submarket, 3rd Quarter, 2004

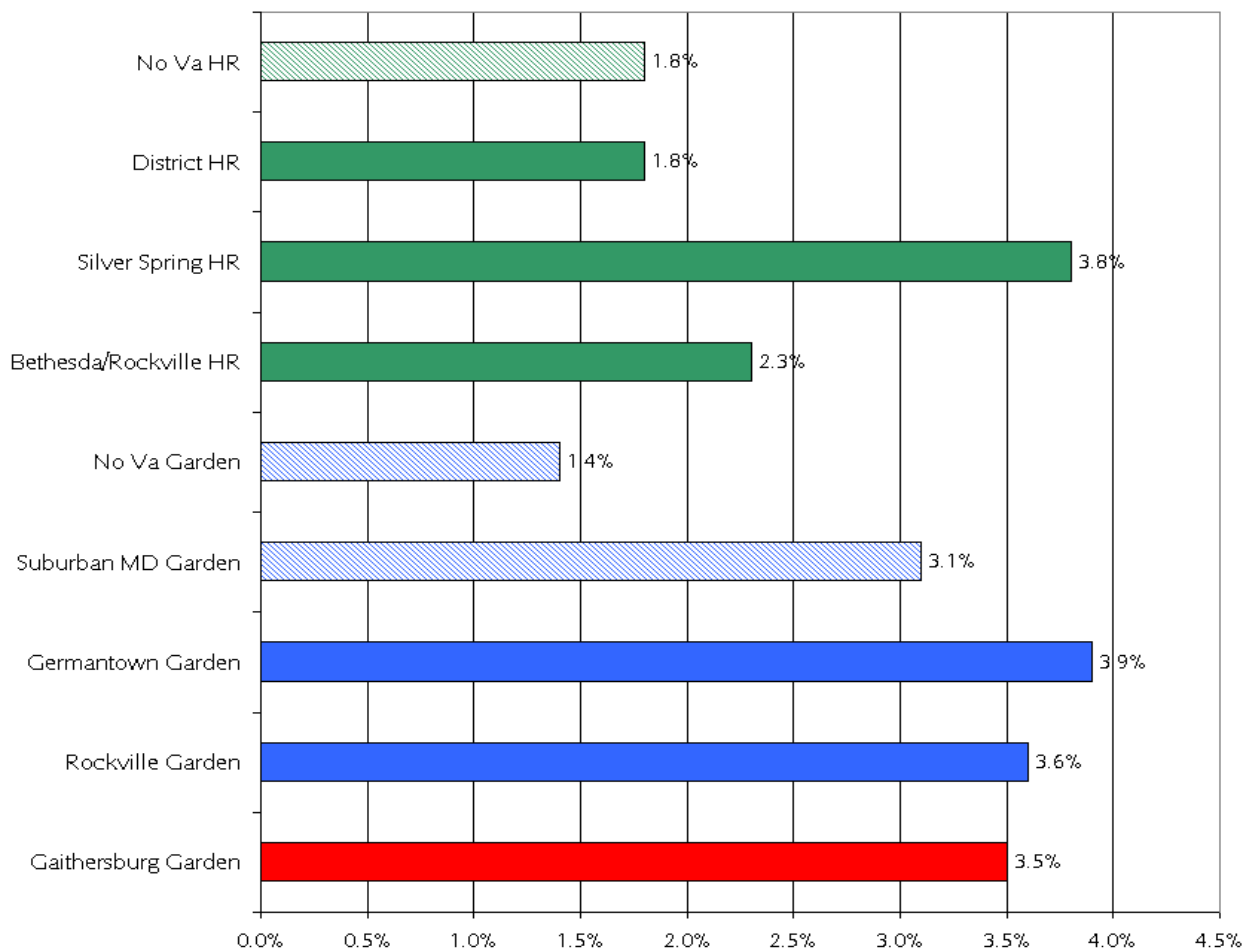


- Relatively small Class A rental apartment inventory in Gaithersburg
- Since 2000, only 77 net new Class A units added to the Gaithersburg inventory, or 2.8% increase
- During the same time period, roughly 2,700 net new Class A units were added to the neighboring Rockville submarket.
- Predominance of lower-density, Garden-style product in Gaithersburg, with no existing Class A high-rise or mid-rise units

Source: Delta Associates; Robert Charles Lesser & Co., LLC

Class A Rental Vacancy

Vacancy Rate by Submarket, 3rd Quarter, 2004

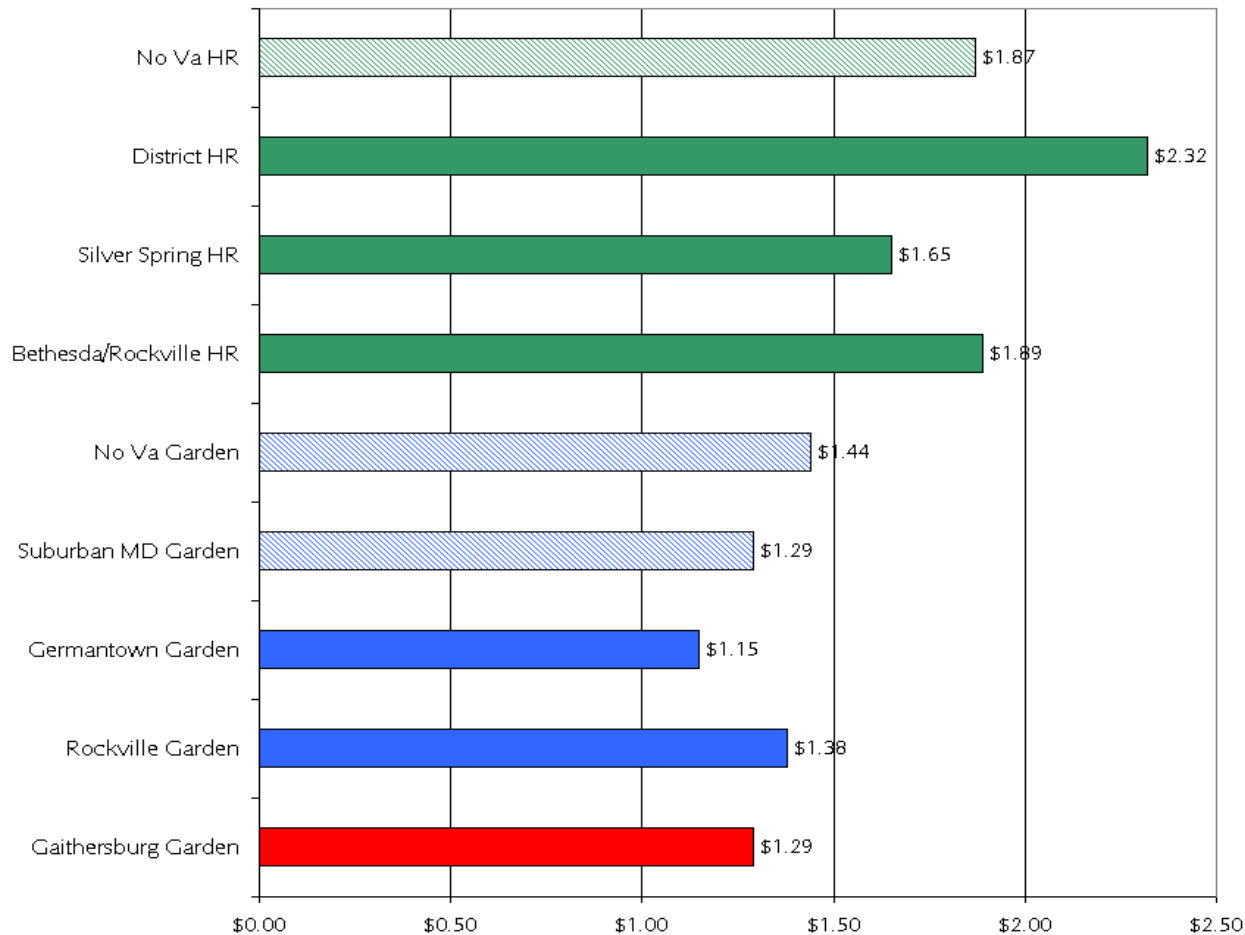


- Healthy vacancy rates in Gaithersburg Class A submarket.
- Outperforming neighboring submarkets, but slightly above Suburban MD as a whole
- Up from 2.4% vacancy rate in 3rd Qtr of 2001

Source: Delta Associates; Robert Charles Lesser & Co., LLC

Class A Rental Rates

Effective Rents per SF by Submarket, 3rd Quarter, 2004

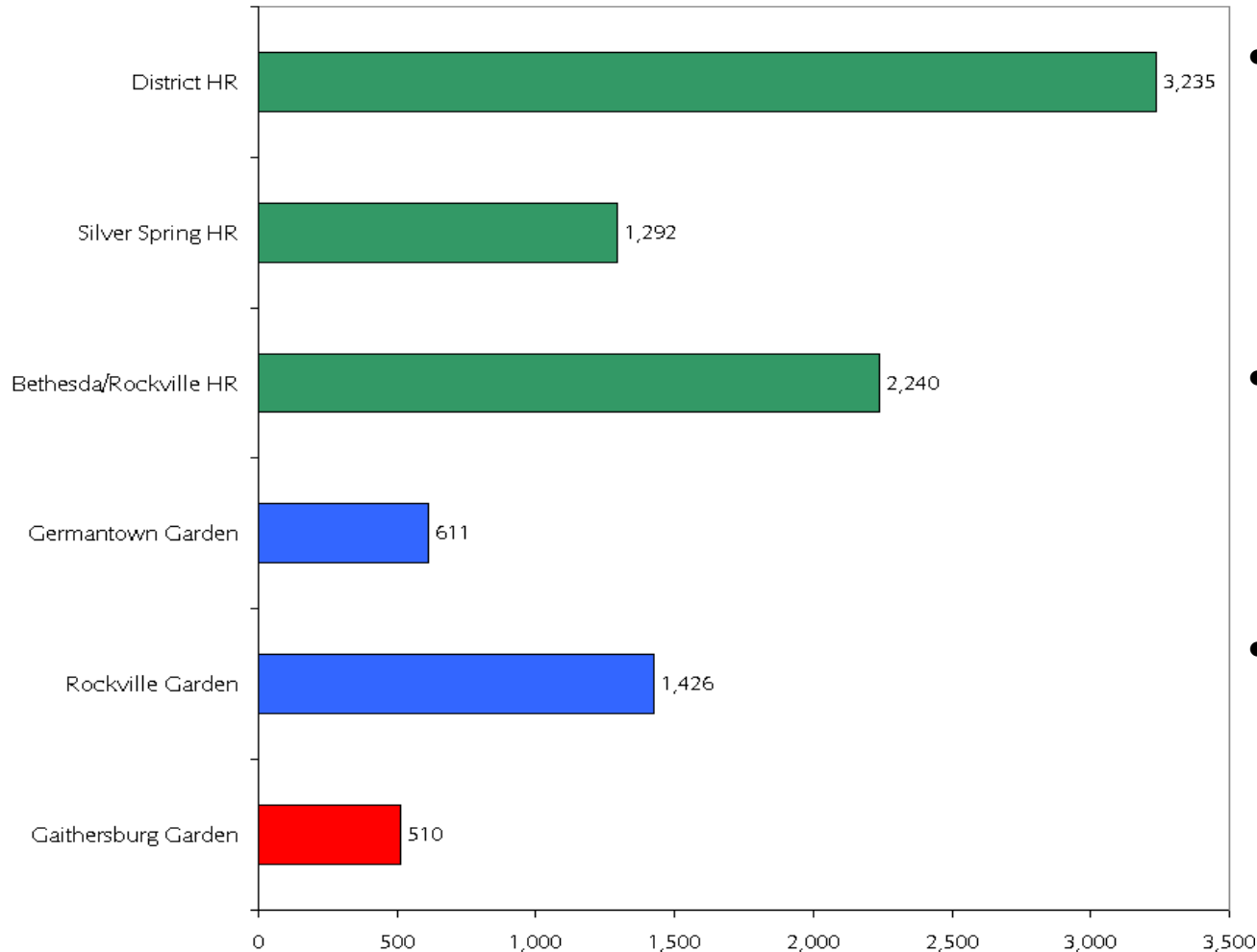


- Average effective rents (including concessions) below most other selected submarkets — clearly a premium associated with closer-in locations.
- Rent growth has been stagnant, or negative in most submarkets, as properties have looked to “buy” low vacancies.
- Gaithersburg Class A rents have only grown 0.4% a year since 2002, in line with Suburban MD as a whole.
- Neighboring Germantown and Rockville submarkets have experience 2% annual declines since 2002.

Source: Delta Associates; Robert Charles Lesser & Co., LLC

Class A Rental Pipeline

Planned (Delivery in Next 36 Months) Rental Units by Submarket; 3rd Quarter, 2004



- Gaithersburg Class A pipeline is relative small compared to other submarkets, but large relative to volume of recent deliveries.
- The pipeline numbers will continue to shift due to widespread conversions from rental to for-sale condominiums.
- If conversions continue at the current pace, the rental market will likely move from a period of oversupply to undersupply.

Source: Delta Associates; Robert Charles Lesser & Co., LLC

Key Rental Comps

- Mixed performances among key comps.
- Many experiencing negative impacts of overbuilding, with growing vacancies and significant concessions.
- Affluent renters are able to more selective in an environment of oversupply – quality of product and location become even more critical.
- The performance of the two projects in Olde Towne – Cedar Court and Park Station – partly reflects the importance of a more dynamic environment.
 - Cedar Court is a mixed-use project on Olde Towne Ave. and is achieving strong rents (\$1.37) with no concessions and healthier occupancy (93%). It also benefits from being a smaller project with less units to lease.
 - Park Station is a more conventional garden-style project wrapped around structured parking just on North Summit, and is struggling with occupancies (90%) and is forced to offer significant concessions. Effective rents are \$1.12.
- At least two of the comps are known to be converting to condominiums – Westchester at Rockville Town Center and Gallery at White Flint.

Cedar Court – Old Town Gaithersburg

- Built in 2001
- 68 units above retail
- Garden-style w/ structured parking
- 93% occupancy
- \$1.37 effective rents/SF
- No concessions



Park Station – Old Town Gaithersburg

- Redeveloped in 2000
- 386 units
- Garden-style w/ structured parking
- 90% occupancy
- \$1.12 effective rents/SF
- 17% concessions

Key Rental Comps

Beacon Place – Kentlands

- Built in 1991
- Adjacent to original retail center
- 240 units
- 93% occupancy
- \$1.52 effective rents/SF
- 7% concessions

Courts of Devon - Lakelands

- Built in 1999
- 253 units
- 89% occupancy
- \$1.16 effective rents/SF
- 26% concessions

Centergate I, II, & III – King Farm

- Built in 2000, 2001 & 2003
- Total of 1,089 garden-style units
- Stabilized occupancy of 88% - 91%
- Newest phase leasing at 10/month
- \$1.20 - \$1.25 effective rents/SF
- 15% to 17% concessions

Westchester at Rockville Town Center

- Garden wrap built in 2004
- Not integrated into town center
- 187 units
- Leasing at 8/month
- \$1.69 effective rents/SF
- 8% concessions
- Rumored to be going condo

Jefferson at Congressional Village

- Garden wrap built in 2004
- Adjacent to redeveloped retail center
- Leasing at 9/month
- \$1.58 effective rents/SF
- 11% concessions

Crest at Congressional Village

- Garden wrap built in 2003
- Adjacent to redeveloped retail center
- 88% stabilized occupancy
- Leased at 9/month
- \$1.51 effective rents/SF
- 23% concessions

The Gallery at White Flint

- High-rise built in 2004
- 435 units adjacent to Metro
- Leasing at 16/month
- \$2.27 effective rents/SF
- 7% concessions
- Rumored to be going condo

The Grand – White Flint

- High-rise built in 1999
- 88% occupancy
- \$1.80 effective rents/SF

Windsor Villa – White Flint

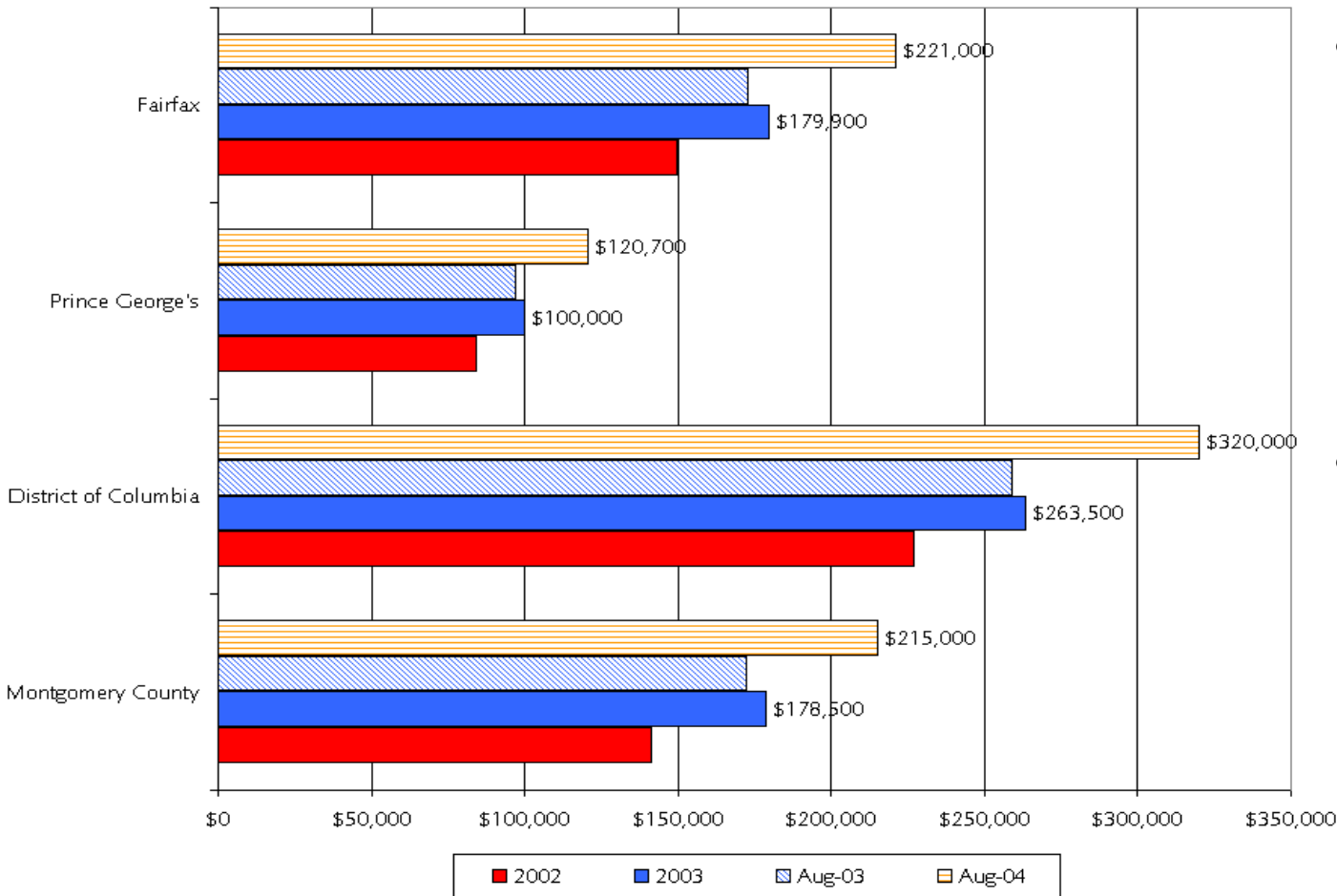
- Garden wrap built in 1999
- 93% occupancy
- \$1.68 effective rents/SF

Olde Towne Market Analysis

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Condominium Sales

Condominium Average Resale Prices, 2002 to August 2004, Selected Areas

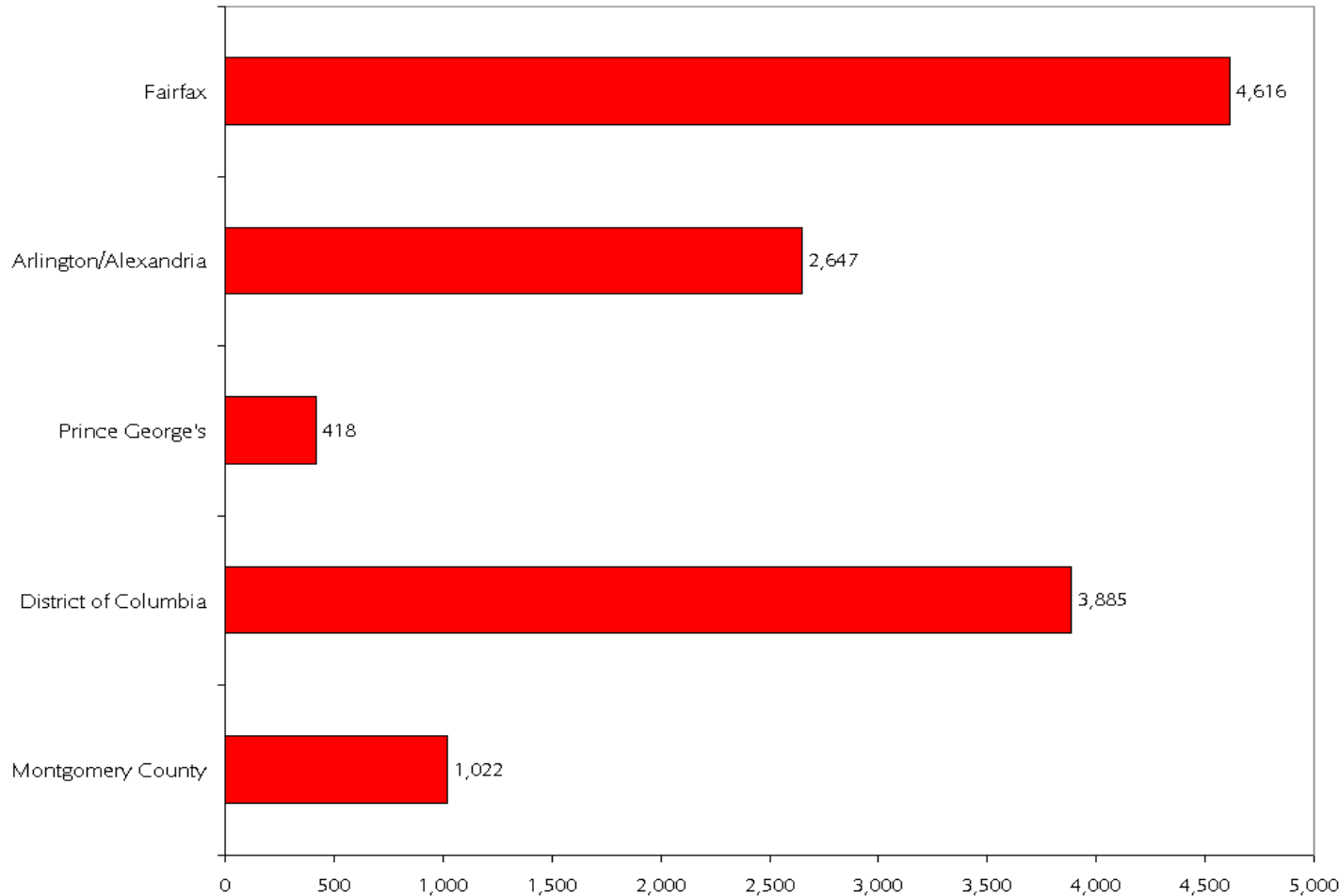


- The Montgomery County condominium resale market has experienced significant price appreciation – 25% annually – in the past several years.
- Volume of resales is 70% to 75% of the volume of resales in Fairfax County, suggesting a smaller inventory of condominium units in Montgomery.

Source: Delta Associates; Robert Charles Lesser & Co., LLC

Condominium Sales

Sales at Actively-Marketing Condominium Communities as of the 3rd Quarter of 2004, Selected Areas

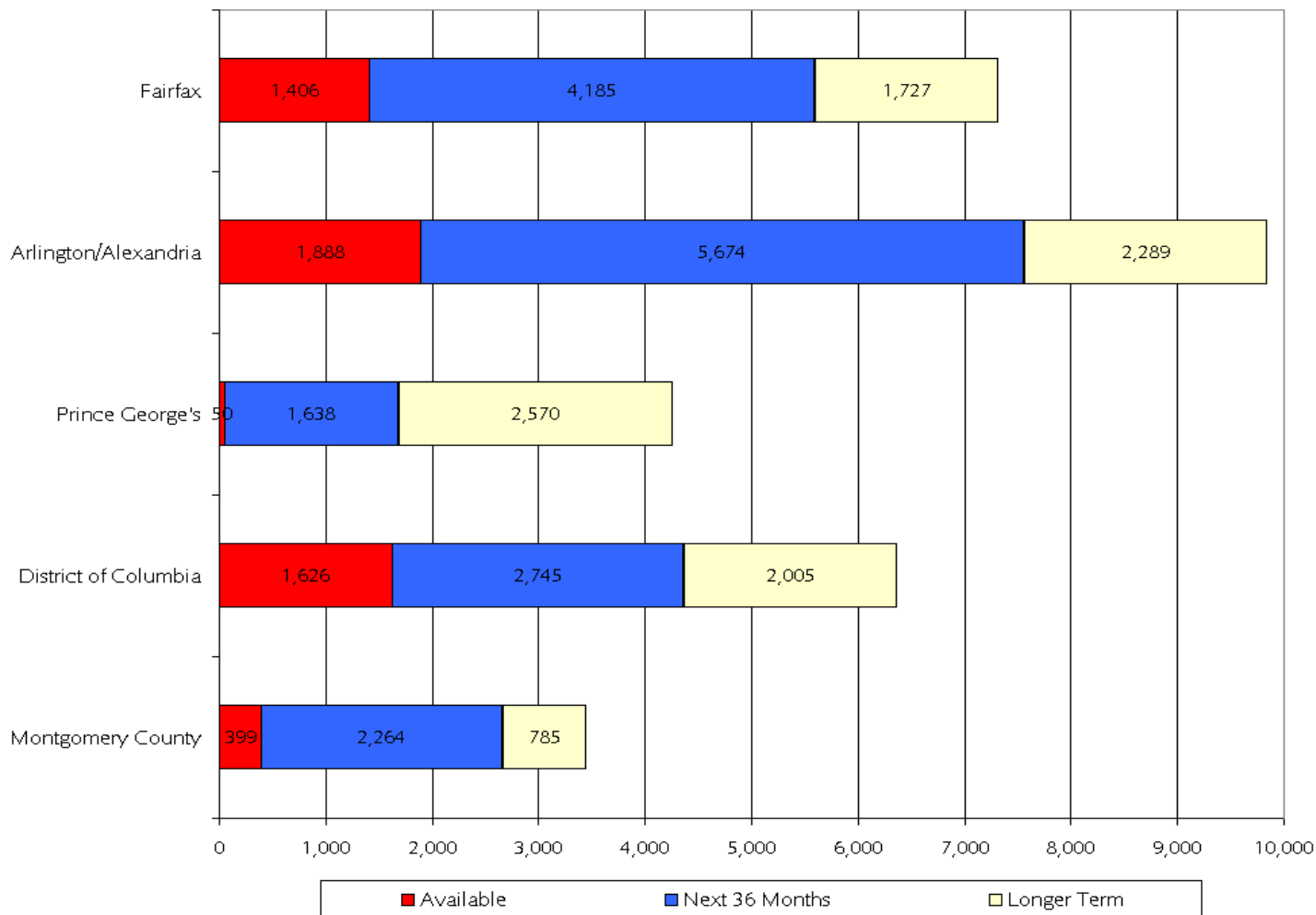


Source: Delta Associates; Robert Charles Lesser & Co., LLC

- Montgomery County has had relatively little new condo activity.
- Many of these sales have been in lower-density product.
- Recent examples of higher-density condo development.
- No market explanation why Montgomery should not be achieving densities and sales volumes relative to other suburban counties.

Condominium Pipeline

Planned Condominium Communities as of the 3rd Quarter of 2004, Selected Areas



Source: Delta Associates; Robert Charles Lesser & Co., LLC

- Pipeline in Montgomery County still lagging other areas, but nearly tripling recent activity.
- Known and future condominium conversions could add significant numbers of additional condo units.
- Oversupply in short term not a strong concern, given expected level of pent-up demand due to period of low activity.

Actively-Selling Condominiums

- The Sterling in White Flint is a high-rise condominium building that sold 152 of its 182 units in its first four months of marketing, and has since sold out. Average price per square foot was \$430 (including one parking space), although the remaining units – many of them larger units on the top floors – are priced at near \$500/SF. The adjacent Gallery at White Flint rental community was recently announced as a conversion.
- The Adagio is a high-rise condominium building in downtown Bethesda that sold all of its units in one month, at an average price per square foot of \$566.
- The Westchester at Rockville Town Center is an existing, garden-style rental community on Rockville Pike that has been rumored to convert into condominiums (which has since been confirmed). Expected average price per square foot at this community range from \$300 to \$350, although given price rapid increases throughout the market, this may be conservative.

Relative Price Positioning (\$/SF) of Selected Submarkets

- District of Columbia, \$450 - \$750
- Bethesda, \$500 - \$600
- Silver Spring, \$350 - \$400
- North Bethesda, \$400 - \$500
- Rockville, \$300 - \$400



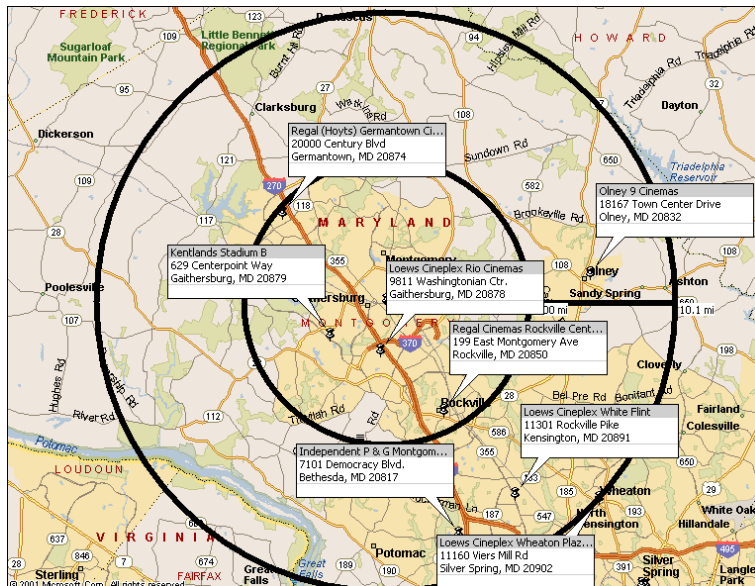
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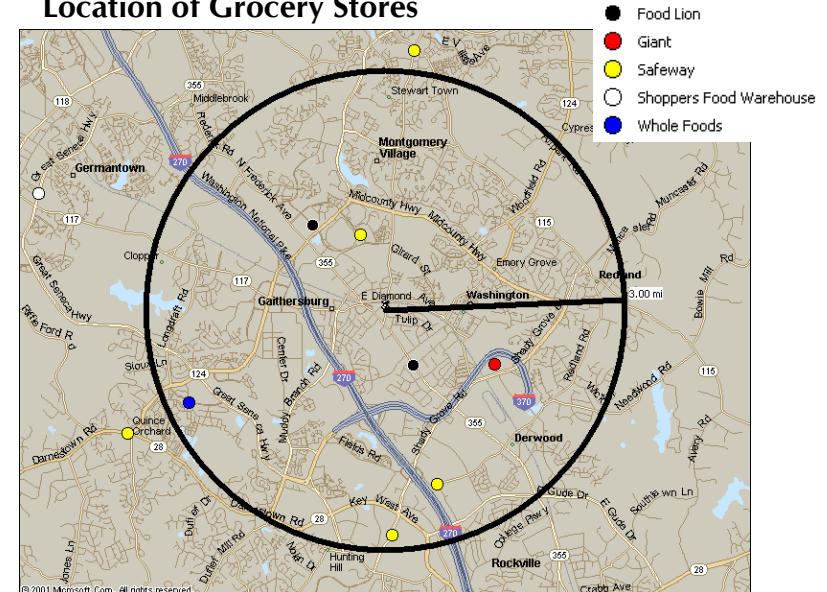
Retail Market Assessment

- Olde Towne will face strong competition in a competitive environment with a number of very successful retail centers.
- Given this level of competition and the challenges of access and visibility associated with the Olde Towne location, there is very little market demand in Olde Towne for a larger retail and entertainment concentration.

Location of Movie Theaters



Location of Grocery Stores



- Access and visibility concerns, and lack of sizable sites, also likely preclude a larger neighborhood retail concentration, in particular a large grocery store.
- The retail market opportunity in Olde Towne will be strong, however, for a mixture of convenience retail, specialty retail and restaurants. The key will be creating a unique retail environment and brand that allows the area to attract expenditures from a broader market area.

Retail Demand Analysis

A preliminary retail demand analysis show strong demand for convenience retail, specialty retail and restaurants in Olde Towne. Given the presence of the existing retail base, we expect net new demand to range from 125,000 to 175,000 square feet.

Retail Demand Analysis for Olde Towne, 2009

- This preliminary retail demand includes potential demand for existing retail, although much of the existing space is likely not commanding the sales per SF assumed here.
- As Olde Towne is established as a unique and vibrant place, these capture rates can be justified.

Source of Demand	Retail Type			TOTAL
	Convenience	Specialty	Restaurant	
2009 Market Area				
Households	46,155	46,155	46,155	
Expenditures per HH	\$6,416	\$1,023	\$6,537	
Expenditures	\$296,125,865	\$47,221,181	\$301,710,620	\$645,057,665
Olde Towne Capture	10%	25%	5%	
Olde Town Expenditures	\$29,612,586	\$11,805,295	\$15,085,531	\$56,503,413
New Old Town HHs				
Households	450	450	450	
Expenditures per HH	\$6,416	\$1,023	\$6,537	
Expenditures	\$2,887,155	\$460,395	\$2,941,605	\$6,289,155
Olde Towne Capture	30%	40%	8%	
Olde Town Expenditures	\$866,147	\$184,158	\$235,328	\$1,285,633
Subtotal, Olde Towne Expend.	\$30,478,733	\$11,989,453	\$15,320,859	\$57,789,045
% from Outside	5%	35%	50%	29%
Total, Olde Towne Expend.	\$32,082,877	\$18,445,313	\$30,641,719	\$81,169,908
\$/SF Threshold	\$350	\$350	\$500	\$395
Supportable SF	91,665	52,701	61,283	205,650

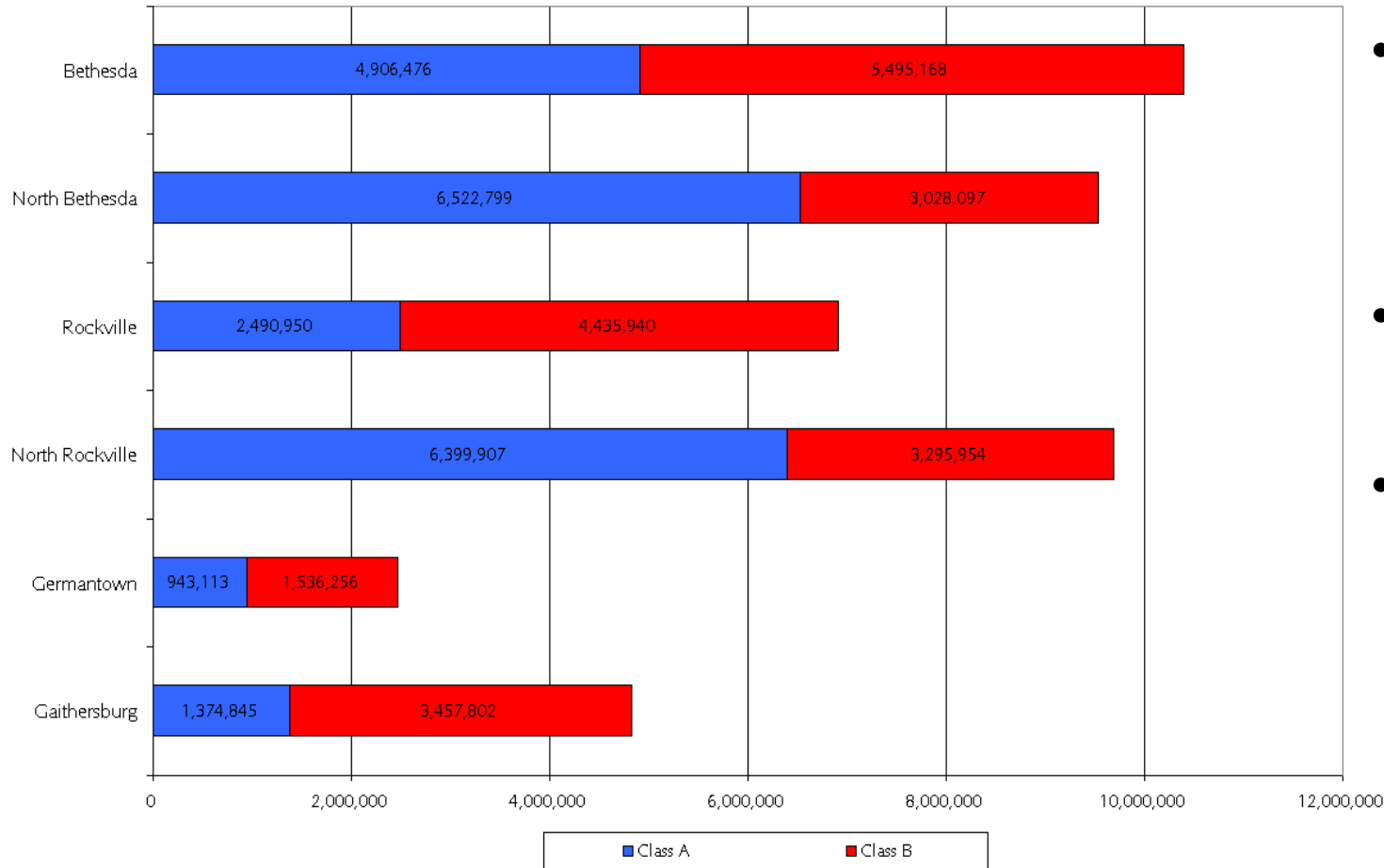
Source: Robert Charles Lesser & Co., LLC

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Office Market Data

Existing Class A and B Office Space Square Footage, Selected Submarkets, November 2004

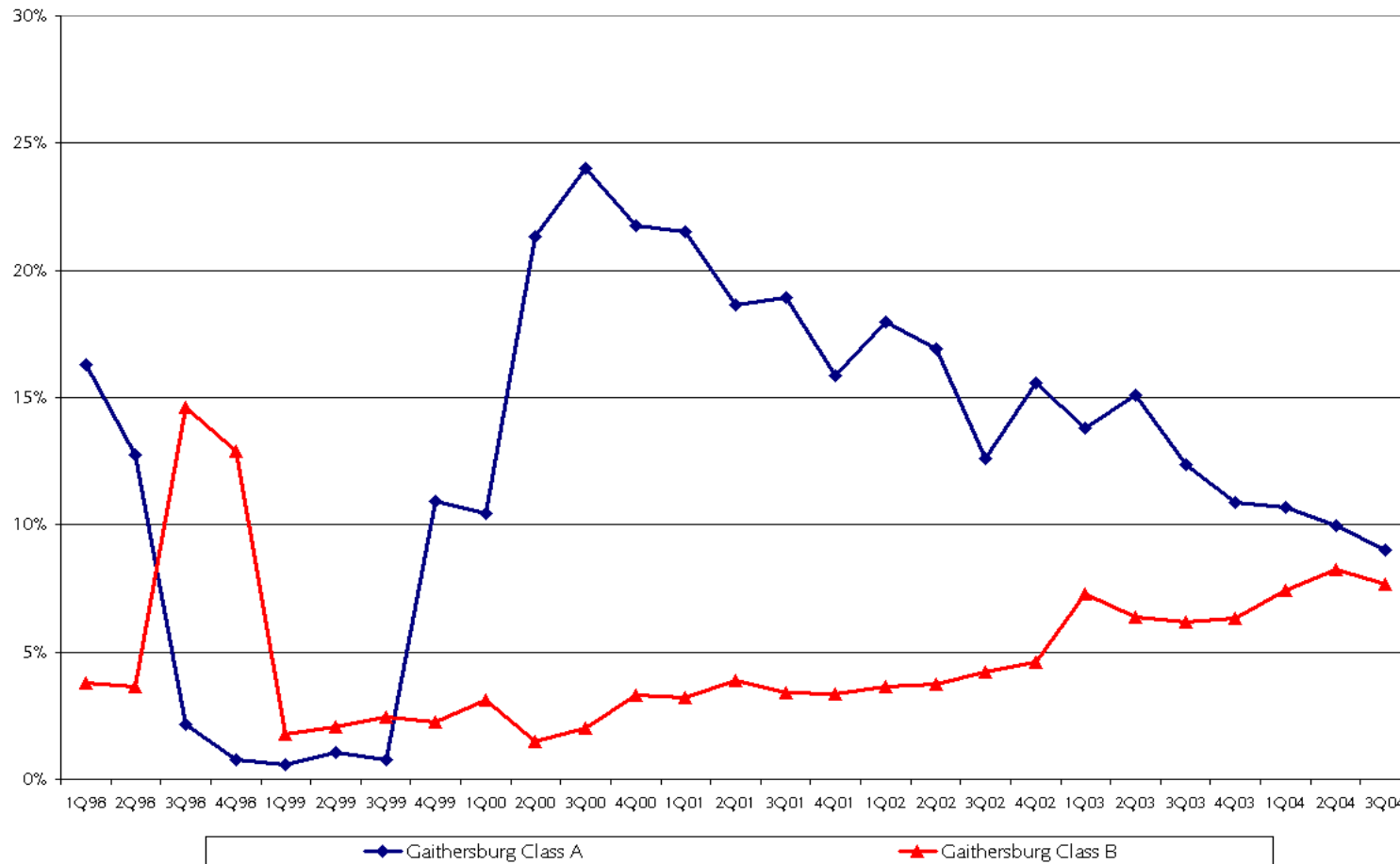


Source: Costar Group; Robert Charles Lesser & Co., LLC

- The Gaithersburg submarket has 4.8 million SF of Class A and B office space.
- Approximately 72% of existing space is Class B.
- Overall, smaller submarket that neighboring North Rockville, which is better established as a location for Class A office demand driven by biotech and other key sectors.

Office Market Data

Class A and B Office Space Vacancy Rate, Gaithersburg Submarket, 1Q98 through 3Q04

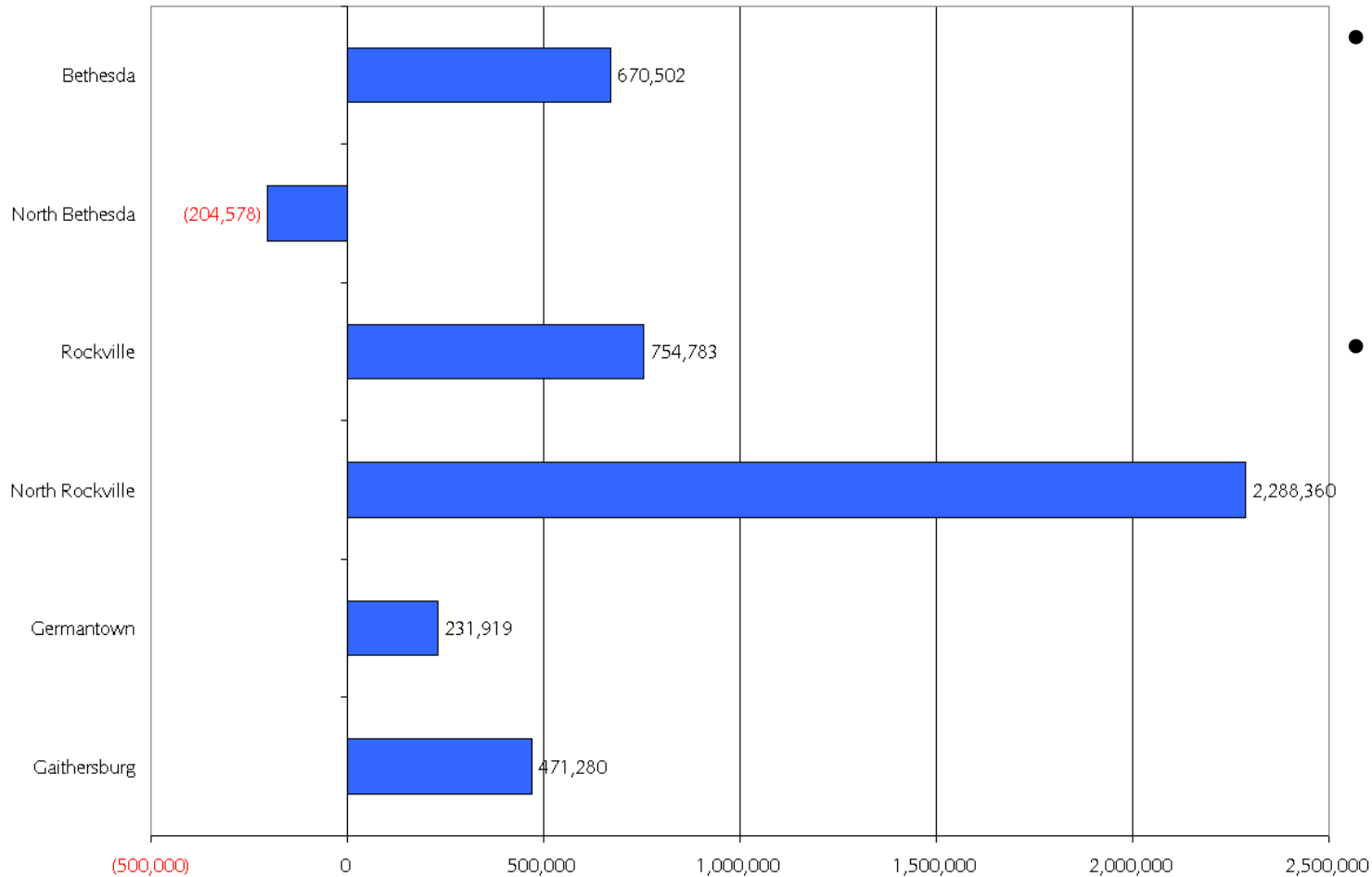


- Class B space has performed better than Class A space during recent period of market softness.
- Class A market improving, with vacancy rate just recently falling under 10%.

Source: Costar Group; Robert Charles Lesser & Co., LLC

Office Market Data

Class A and B Office Space Square Feet Absorbed, Selected Submarkets, 1Q98 to 3Q04

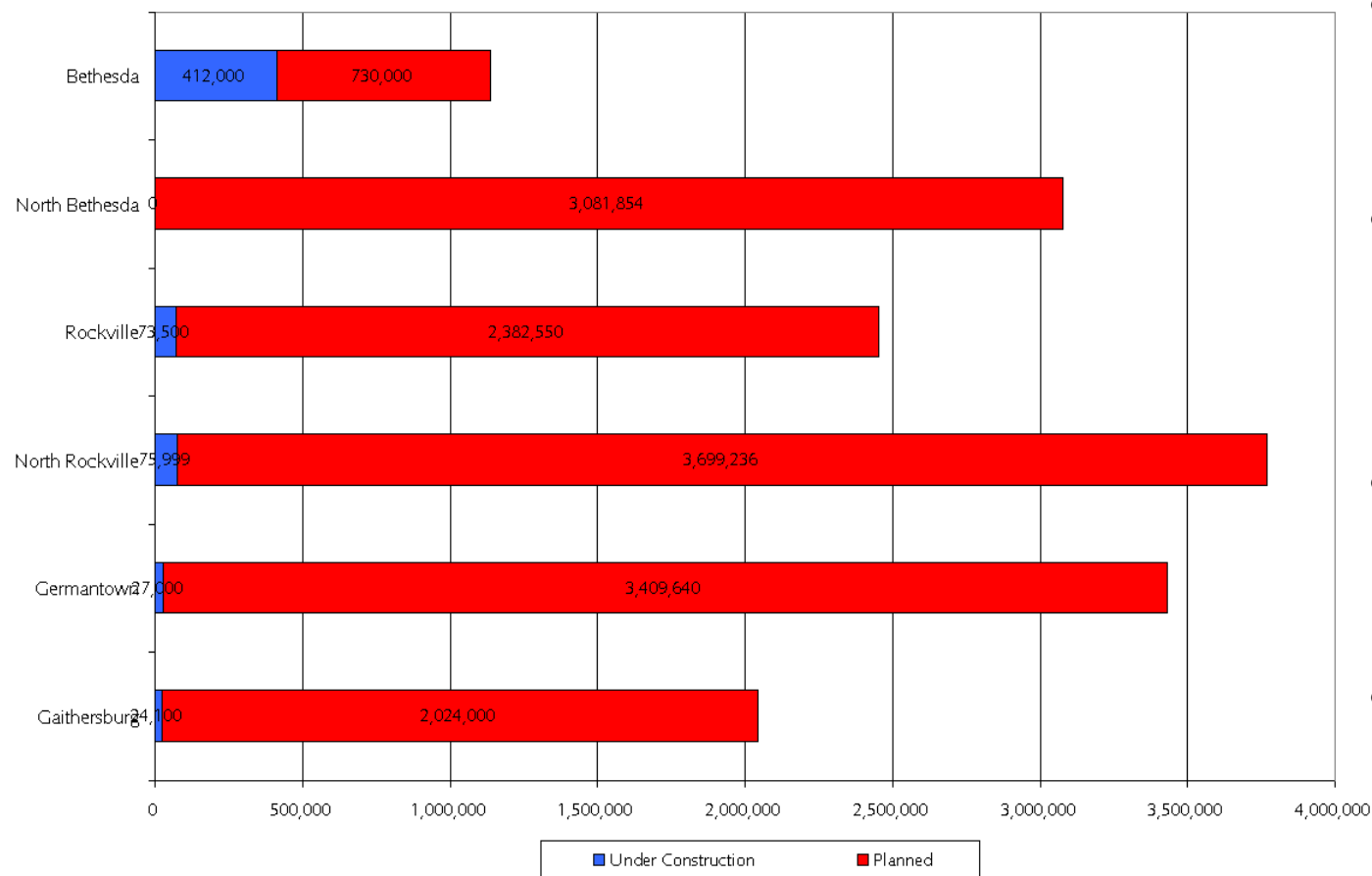


- Relatively strong absorption over past seven years, but still lagging North Rockville submarket.
- Nearly 75% of Gaithersburg absorption is in Class A space.

Source: Costar Group; Robert Charles Lesser & Co., LLC

Office Market Data

Square Footage Pipeline of Future Office Space, Selected Submarkets, November 2004



Source: Costar Group; Robert Charles Lesser & Co., LLC

- Over 2 million SF of planned space in the Gaithersburg submarket.
- Based upon 1998 to 2004 absorption trends, this pipeline represents nearly 30 years of supply.
- Gaithersburg expected to capture greater share of office space absorption over time.
- Over near term, strongest opportunity will be the market niche tenants that will not compete directly with larger office buildings.

Relevant Office Projects



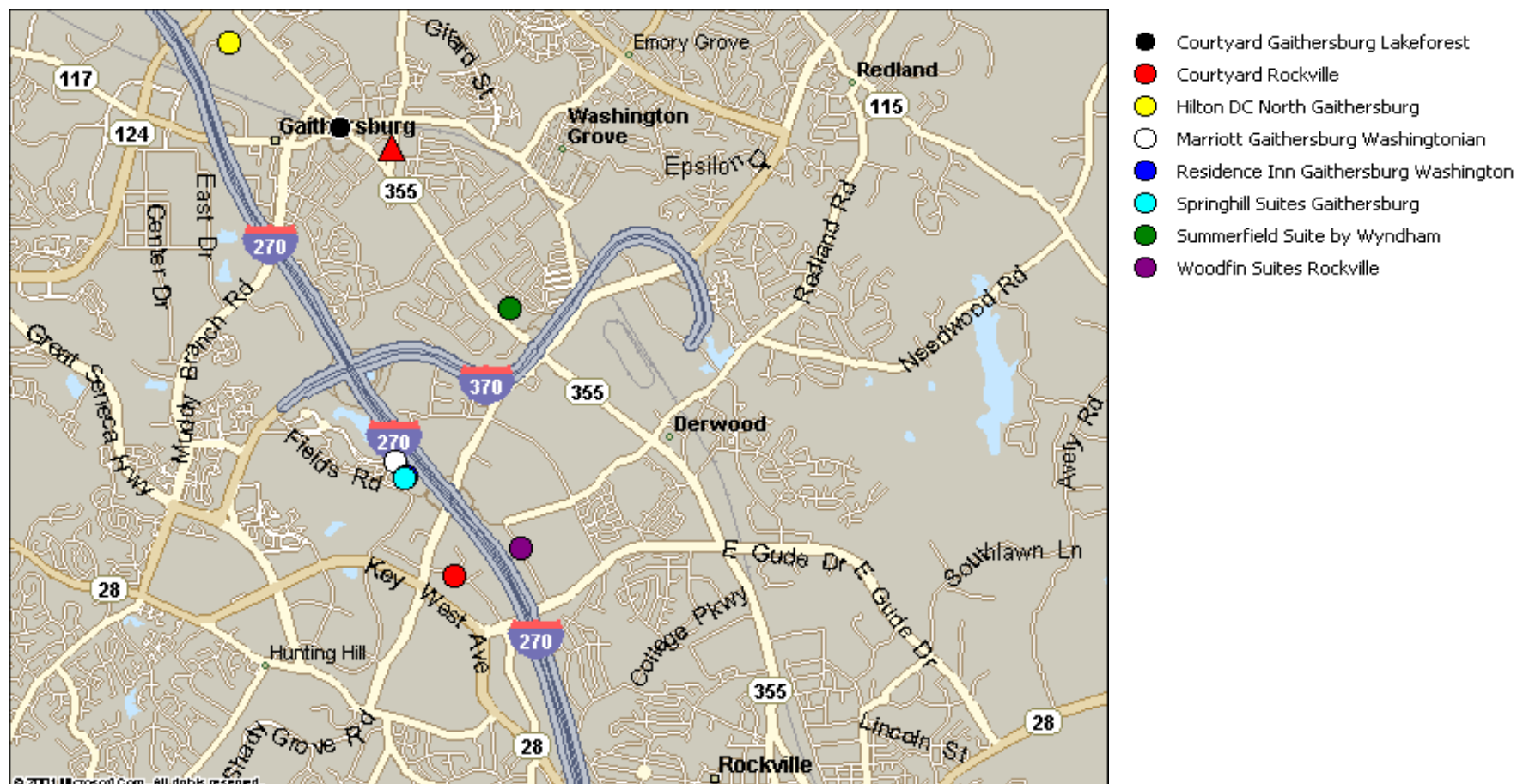
- The DANAC buildings – 12 & 16 S. Summit Avenue – were built in 1998, and total 112,000 square feet.
- Very successful project that is currently full-leased, with brokers indicating significant interest from tenants in new space.
- Serving niche of professional office tenant that wants smaller spaces in more interesting places. In particular:
 - Tenants do desire easy access to I-270.
 - Attractive for those who can't/won't pay for Bethesda, but do not want to be in larger buildings in campus setting.
 - MARC service is not currently that important to office tenants.
 - Olde Towne does need to offer more vibrant retail and restaurant base to maintain and grow office tenant base.
- Rents from \$24 to \$25 (FS) per SF

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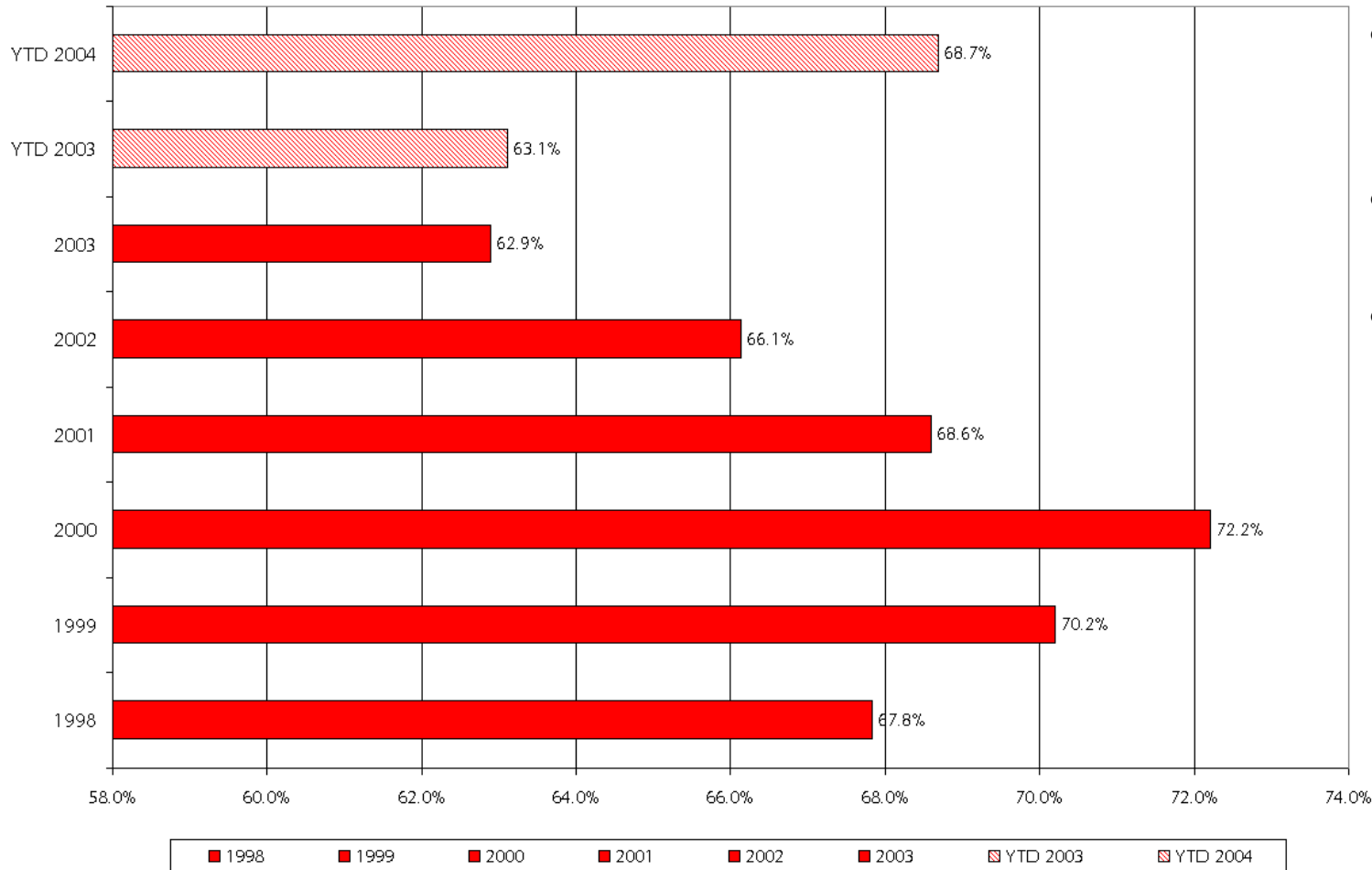
Hotel Competitive Market

In order to gauge the current health of the local hotel market, we collected performance data on eight full service hotels in the general vicinity of Olde Towne.



Hotel Market Data

Hotel Occupancy Rates for Selected Competitive Market Set, 1998 to November 2004

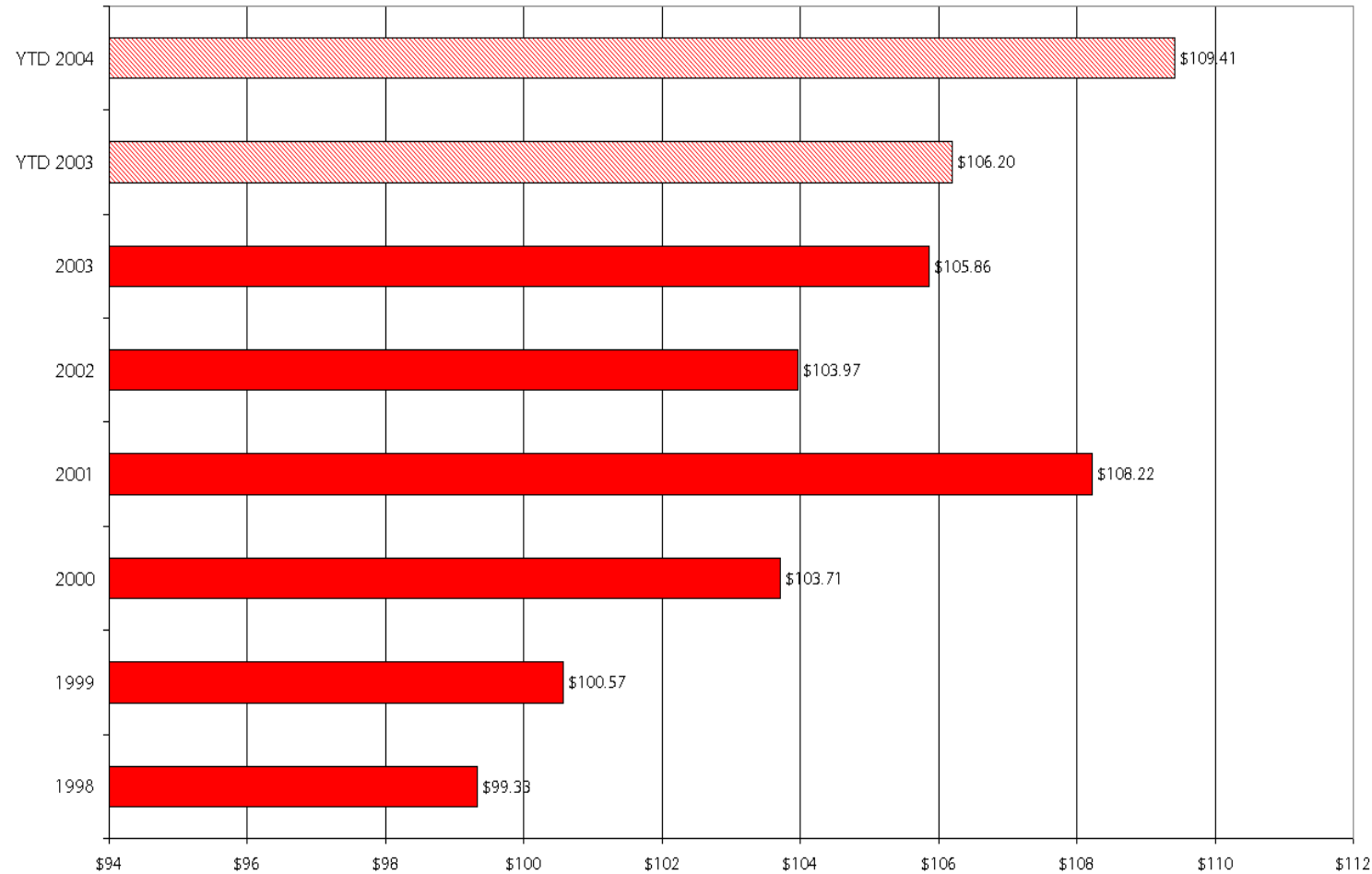


- Declining occupancies in past several years.
- Signs of a rebound in 2004.
- Consistent occupancy rates over 70% typically viewed as sign that new hotel rooms are demanded in the marketplace.

Source: Smith Travel Group; Robert Charles Lesser & Co., LLC

Hotel Market Data

Hotel Average Daily Rate (ADR) for Selected Competitive Market Set, 1998 to November 2004

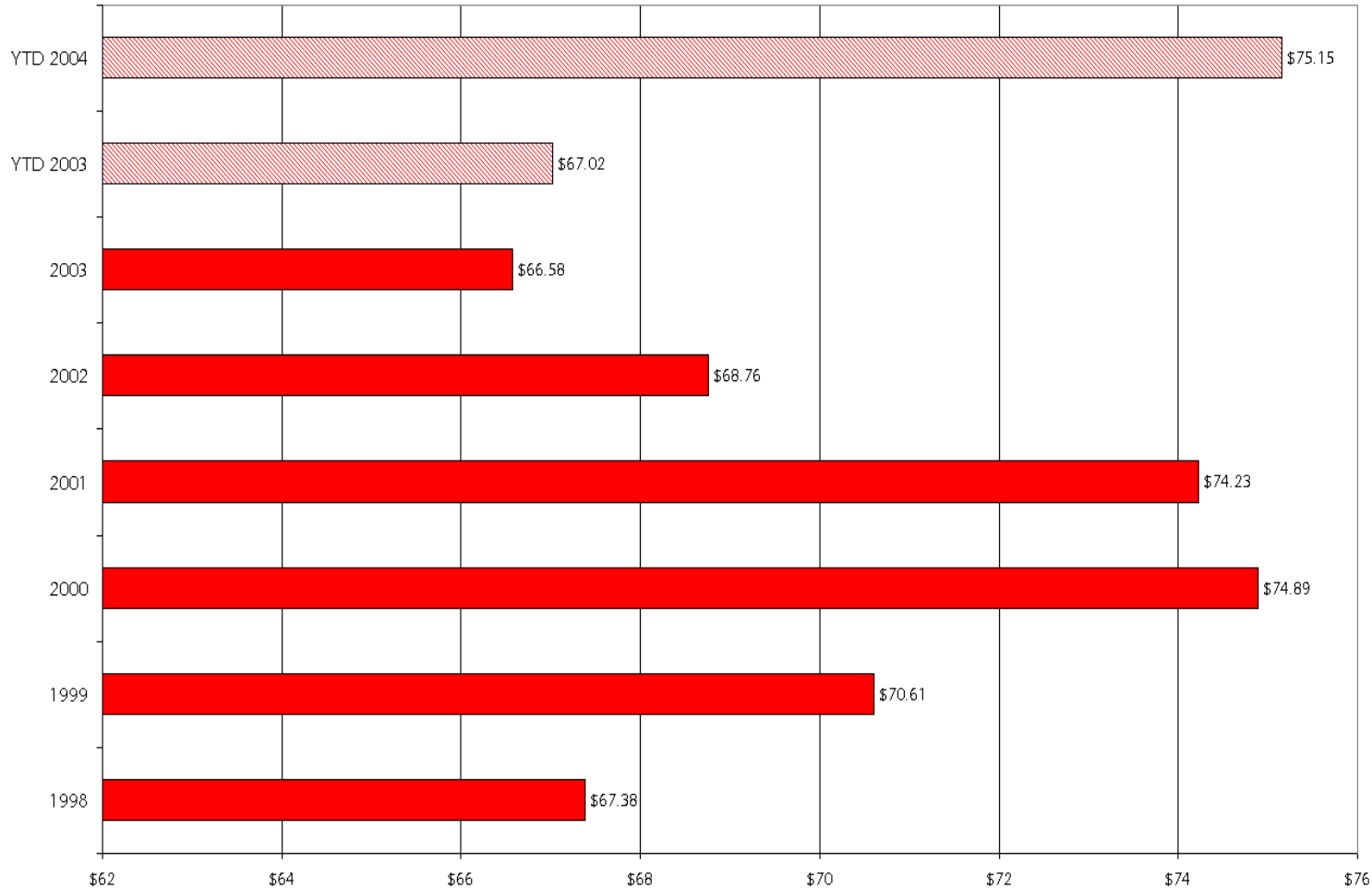


Source: Smith Travel Group; Robert Charles Lesser & Co., LLC

- As occupancy rates have declined, ADRs have stagnated.
- Again, signs of recovery in 2004.
- Overall, ADR (\$109) is still well below room rates required to support a new full service hotel.

Hotel Market Data

Hotel Revenue per Available Room (RevPar) for Selected Competitive Market Set, 1998 to November 2004



Source: Smith Travel Group; Robert Charles Lesser & Co., LLC

- Recovery in occupancy and ADR in 2004 has resulted in a significant increase (12%) in RevPar.
- YTD 2004 surpassing high point of past seven years.